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FROM THE CONTENTS:—

THE TRADE OF HONGKONG WITH JAPAN

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SUSPENSION OF TRADE

As was pointed out in the Review two weeks ago (Page 478) trade with Japan was suspended on 26th September. The prohibition of all new trade still remains even though it is more than a full month from the day (20th September) that Britain announced the devaluation of sterling in relation to the United States dollar. However, traders have been informed by the Department of Supplies and Distribution in a circular dated 12th October that imports from Japan to Hongkong for which licenses were issued prior to devaluation will be permitted and that payment will be at the predevaluation rate between the H.K. dollar & the U.S. dollar (HK$4.02: US$1.00). This pronouncement will no doubt be welcomed by all holders of licenses to import goods from Japan but to operate exchange transactions at a rate other than that officially ruling appears to be so contrary to accepted banking practice that the government's pronouncement deserves the closest scrutiny. This can best be done by first examining the salient features of the mechanism by which trade is conducted between Hongkong and Japan.

THE METHOD OF TRADING

On 15th August 1947 the Supreme Commander for the Allied Powers in Japan announced that trade could be carried out between Japan and foreign countries through private merchants. Traders reached Japan from Hongkong within a few days but they found that the only currency which they could use for buying or selling was the U.S. dollar. The yen had no fixed rate of exchange and could not be used in foreign trade. Sterling was not acceptable to SCAP until the free transfer of sterling into US dollars was permitted or a trade arrangement providing for such transfer of balances was concluded. The H.K. dollar was almost unknown to the American occupation authorities and where known was regarded with the same suspicion as sterling.

Trade with Hongkong was inaugurated on a bilateral basis in U.S. dollars on the understanding that imports & exports would be kept in balance. To inaugurate and maintain the "open account" or "two-way account" mechanism through which the resulting trade has since been channelled, government management of the trade has been maintained. At first the trade was virtually on a government to government basis but from 15th March 1948 a new procedure was announced whereby the mechanism of trade was moved towards banking channels. A merchant wishing to export goods to Japan had to obtain a license from the Department of Supplies, Trade & Industry (now the Dept. of Supplies & Distribution). After the goods were shipped the documents were produced to the S.T. & I. Dept. who issued an order for payment on the Hongkong & Shanghai Banking Corp. On receipt of this order together with documents the bank, after examining the documents to ensure that they were in order, made payment of 90% of the CIF value. The remaining 10% was paid after notification from SCAP that the goods had been accepted without claim.

A merchant wishing to import goods placed an order in Japan and applied for an import licence to S.T. & I. Dept. If given a license the merchant paid to the Bank a margin of 25% of the FOB U.S. dollar value of the goods; produced an open cover policy issued by an approved insurance company (with claims payable to the bank); and arranged freight. On completion of these formalities the Bank advised their Tokyo office in the form of a Bank Authority which was similar to a letter of credit but which provided that the Hongkong Government Agent in Japan should approve all resulting contracts prior to their validation by SCAP. The prior government approval in Japan kept Hongkong's trade on a sound basis at a time when some unscrupulous merchants from other countries were signing contracts for which letters of credit were never opened. (Japanese manufacturers were cut off from the world and were desperately anxious to obtain export contracts which entitled them to obtain scarce raw materials. They would sign contracts without any certainty that the foreign buyer would produce a letter of credit. In fact they were sometimes better off if the goods were not exported and they were able to sell them at much higher local prices on the starved home market.) Having made a contract with a Japanese exporter, obtained the approval of the Japanese Boeki Cho (now Ministry of International Trade & Industry), and the Hongkong Government Agent, and the validation of the Supreme Commander for the Allied Powers, the processes necessary to obtain the goods and ship them were set in motion. After the completion of shipping formalities in Japan, documents were surrendered to the Hongkong & Shanghai Banking Corp. in Tokyo for transmission to its Hongkong office to be handed over to the merchant against payment of the balance of the purchase price. Goods were sometimes received in Hongkong months before the arrival of documents.

The system has changed from time to time in minor ways, the most important development being the inclusion of other approved trading banks in the arrangement. Merchants became able to transact their business through the bank of their choice, although the Hongkong & Shanghai Banking Corp. remained as the central clearing bank which held the government's account through which total transactions were to be balanced.

The government charges a commission of 1% on both imports & exports of which the appropriate bank retained ½% to cover its expenses. An additional ¼% in the case of imports is collected for passing bank authorities to Tokyo.

Purchases and sales to and from Japan have been in U.S. dollars and all contracts have been in the same currency. All payments have been made in Hongkong in H.K. dollars at HK$3.95 per US$1.00 for exports and at HK$$4.02 per US$1.00 for imports. This exchange ratio has been profoundly significant in all transactions between Hongkong and Japan. The rate chosen was the official value of the U.S. dollars in terms of H.K. dollars with a wide spread between buying &

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selling which has been a constant source of income to the government. Trade has, therefore, been dominated by the disadvantage of selling to Japan in U.S. dollars which were paid to the exporter at the official rate of exchange against non-Hongkong competitors who could, if they wished, convert "free" dollars at the open market rate of exchange. In many cases the difficulty was made greater by the necessity of buying the exports from countries, particularly China, in U.S. dollars which had to be obtained on the open market. This can be illustrated by an imaginary sale of say, oilseeds to Japan at US$100 per ton. The exporter using the Hongkong open account would receive back approximately HK$391 (being the official rate of 395 less 1% normally charged). A seller who by avoiding Hongkong could sell at the same price of US$100, but with payment in Tokyo or New York, would receive by selling his U.S. dollars in Hongkong through the open market HK$600 (assuming an open market rate of 6 to 1. This has been the approximate rate recently although it has been both higher and lower from time to time). This tremendous handicap is readily seen. There was no escaping the difference of approximately 50%, particularly when the oilseeds were probably being bought by both competitors in the same market at the same U.S. dollar price, the Hongkong merchant having to obtain his U.S. dollars through the open market at 6 to 1.

The selling difference was partly reduced by SCAP's reluctance to pay cash U.S. dollars if it were possible to make a barter deal or to buy through the Hongkong open account. (In Japan's eyes the Hongkong open account is essentially a large scale balancing of imports with exports which is a glorified barter and which promotes exports to the extent that imports are made.) In many cases it was possible to sell on the Hongkong open account at about a 10% premium. To continue our example, the Hongkong merchant could often sell at US$110 and receive HK$430 against his competitor who could sell at only US$100 but for this could still receive HK$600.

Apart from the exchange differential, the exporter has had to understand how to manage a complicated business, usually in three countries. Hongkong's regulations of the Japan trade have been mentioned and the frustrations and delays have been hinted at. The peculiarities of trade with China, the source of most of the goods sold to Japan from Hongkong, must not be overlooked. Apart from the special difficulties of this postwar period with armies of occupation and civil wars, business men will agree that selling is generally more difficult than buying. Those who have watched, those who have tried and failed and, perhaps, even more, those who have succeeded, all agree that selling to Japan through the Hongkong open account has been difficult. Nevertheless the extent of the difficulties is not always fully appreciated and it is constantly overlooked that the exporter has been the pivot of the trade. Before examining how the exporter has in fact managed to sell to Japan, it is advisable to consider the importer's position.

The exporter has been selling against the difference between the official and open market value of the U.S. dollar. The importer has been buying with it. The importer has been buying goods from a "hard" currency country, Japan, at the official rate of HK$4.02 for the U.S. dollar., His competitors in the Hongkong local and re-export markets have had to obtain their U.S. dollars at the unofficial rate of, say, 6 to 1 in the open market where they wished to buy similar goods from the United States or other "hard" currency areas. The importer has, therefore, had the benefit of a fifty percent premium against the exporter's deficit of a similar percentage. It must not be forgotten that it is mainly because of the profits made by many importers (including exporters in their role as importers) that the Japan trade has been generally considered to be very profitable.

Without exports to Japan imports would have been impossible because it has been the basis of government policy that imports and exports should balance. How then has the exporters' potential losses been reduced to a level which has enabled trade to flow? Partly, of course, because of the ingenuity, experience and ability of the Hongkong businessman whose whole life is spent in creating and maintaining commerce which would not take place or would follow other routes were it not for Hongkong. Mainly, however, the solution has rested in the government's decision to give the exporter the incentive of being an importer in his own right in proportion to the amount he exports.

There has, of course, been a widespread desire by all Hongkong merchants to import from Japan or to import more from Japan. The government method of allocating exchange can best be given in the words of the Acting Director of the Department of Supplies & Distribution in an extract from a letter to the Hongkong Chamber of Commerce in which he stated:—

"It has been especially difficult to devise a system which would be equitable to all concerned, particularly as Japanese exchange, unlike exchange for imports from other sources, is available in certain limited quantities for the importation of non-essentials and a certain element of arbitrariness has been inevitable.

"Any balance on the open account maintained between THIS GOVERNMENT AND SCAP IS LIABLE TO SETTLEMENT IN U.S. DOLLARS; IN CONSEQUENCE, IT MUST BE TAKEN AS A FIRST PRINCIPLE THAT THE ACCOUNT MUST BE BALANCED, I.E., THAT WE CAN SPEND IN JAPAN ONLY AS MUCH AS WE EARN THERE. These credits are utilised as follows:—

(a) The exporter may use a certain proportion of the credit earned by his exports to purchase goods in return without restriction as to commodity. This is intended to encourage merchants to make exports which are the limiting factor in trade at the moment and is not intended to enable merchants to sell in Japan below cost and recoup losses so made by profits on imports. The percentage is fixed at present at a standard 40 per cent. (except in the case of Gallnuts where it is 60 per cent.), though this may be varied in specific cases. It will not be increased merely to recoup merchants for losses on exports due to their own commercial errors, or to enable them to undercut other Hongkong traders.

(b) The remainder goes into a pool which is used in the first place for the purchase of essential goods which are in three categories:—(i) Building materials. Exchange is given on production of the relative Building Ordinance permit and a sale contract with the contractor concerned. This does not apply at present to window glass which is in ample supply. (ii) Raw materials for industry. Exchange is given for industrial raw materials for sale to specific factories for commodities and in quantities agreed by the Industry Section of this Department as being legitimately required by the factory. (iii) Fresh Fruits.

(c) What is left in the pool is then allocated free of restriction as to the commodity to be purchased to firms which it is considered have a claim to this trade. The difficulty has been to lay down criteria for this purpose, and the Department has in general taken the following factors into account:—(i) Activity in the period up to March 1948 when exchange was freely available. (ii) Maintenance of representatives in Japan, sponsored through Hongkong. An attempt is made to provide this special category with enough exchange to make the maintenance of an office economic on a minimum basis, but no guarantee of this is given. (iii) Initiative shown by making a commercial visit or visits to Japan. No promise, however, is given that such visits will result in a grant of exchange, in order to avoid the possibility of merchants making such visits with this purpose only in view. (iv) Any general or particular contribution to the development of trade between Hongkong and Japan. (v) Pre-war business between Hongkong and Japan. The last criterion has not been allowed as much force as, for example, in the allocation of import quotas for butter or canned meat. This is due to the altered nature of the trade and the impossibility of securing anything like documentary records of previous trade. At the present moment, regular monthly allocations of exchange are being given to 38 firms represented in Tokyo and 87 others. A waiting list is also maintained of other applicants and further names are added to the exchange list as and when the exchange position permits.

"The Government is always prepared to consider any transaction specially on its merits as making any valuable or permanent contribution to Hongkong trade, e.g., purchase for re-export for a desirable currency (except U.S. dollars which are excluded by the terms of our trade with SCAP).

"It is, of course, impossible to satisfy everybody, especially when allocations must necessarily be made on a fairly arbitrary basis, but it is felt that the above system is as fair a one as can be established in the circumstances."

THE IMPORTANCE OF RETURN EXCHANGE

The exporters' privilege of importing goods from Japan (commonly referred to as "return exchange") to an agreed proportion of their export sales has been mentioned in several passages above. It has had such an important bearing on the Japan trade that it must be discussed even further.

In the very earliest days of Hongkong's postwar trade with Japan, SCAP was in urgent need of goods and competition was not great. Prices were good and sales were made without reference to purchases from Japan. Exchange for imports was granted freely to the limited number of Hongkong merchants who were at that time active in Japan trade.

From the middle of 1948, however, the difficulties of selling to Japan increased and imports from Japan were restricted. It was decided that return exchange should be given to exporters as a stimulus to the trade. An arbitrary figure of 40% was decided upon but it was customary to vary this percentage wherever individual circumstances warranted such action. It was feared that a general increase in the percentage would merely lead to undercutting of selling prices between Hongkong merchants but where an increase in the return exchange assisted the inauguration of new business, such as the development of a new mine, it was granted for a certain number of shipments. Similarly, where the competition was from outside Hongkong higher return exchange was granted in order that the Colony's merchants should obtain business which would otherwise have been impossible.

As the difference between the official and open market value of the U.S. dollar changed, the significance of return exchange also varied. When the open market rate was in the vicinity of HK$5 to US$1 as it was during parts of 1948 the need for high return exchange was of course, much less than when the open market rate was 6 to 1 and even higher during recent months.

An example will show this. If oilseeds are sold at US$100 the merchant will receive HK$391 from the bank in Hongkong whatever the unofficial U.S. dollar rate. However, he will have paid more for his produce if it came from, say, China where he had to buy in more expensive U.S. dollars. He could afford to pay US$78 if the open market rate were US$5 to HK$1 (78 x 5=390) but only US$65 if the rate were 6 to 1 (65 x 6=390). However, the value of his return exchange would be greater, assuming that the value of U.S. dollars in the Japan trade were approximately the same as U.S. dollars in the open market. (This has not always been the case. In early 1948 the Japan U.S. dollar was worth much less and recently it was worth much more than the open market U.S. dollar). If the proportion of return exchange remained unchanged the merchant was, of course, worse off the greater the open market value of the U.S. dollar because he had to pay more for 100% of the goods he bought for export and he would receive more for only 40% (the usual proportion of return exchange allowed) of his proceeds.

In the last few months Hongkong merchants have had, in some cases to compete against barter offers from direct sales between North China and Japan. With only 40% of return exchange and a differential between the open market and the official value of the U.S. dollar of up to 7 to 1 (and even higher for a short period) Hongkong's trade has been seriously handicapped.

The Hongkong Govt. decided at one time (a circular of 29th April 1949) to give 80% return exchange to merchants in certain circumstances but this circular has been withdrawn and it has been a complaint from some merchants that they are not certain now just what percentage of return exchange (whether 40 or 50 or 60) they will receive.

With the devaluation of sterling the margin between the official and open market value of the U.S. dollar has greatly diminished. This reduces the present significance of the proportion of return exchange received by exporters although the matter has been of supreme importance over the last few months and remains so on current export contracts if the government endeavours to maintain these at the predevaluation exchange rates.

THE OPEN ACCOUNT DOLLAR

All transactions between Hongkong and Japan have been in United States currency. The American occupation authorities have preferred the use of the currency with which they are most familiar as a matter of convenience but they have also been worried for years that sterling and currencies linked with it might be devalued. While the aim has been that the open account should be in balance the American authorities have made sure, to requote from the letter written to the Hongkong General Chamber of Commerce by the Acting Director of the Department of Supplies Trade and Industry that: "Any balance in the open account maintained between this government and SCAP is liable to settlement in U.S. dollars."

It has been suggested that the open account is really in sterling and not in U.S. currency. The only circumstantial evidence in support of this contention seems to be that the cash payments into and out of the open account have been in Hongkong in H.K. dollars; that Hongkong is itself a British Colony and in recent years has been within the sterling area; and finally, it has been said that a recent ruling of the Treasury in London decrees that Hongkong trade with countries other than China should be in sterling.

These arguments must be contrasted with the fact that all contracts made in Japan whether in buying or selling have been in U.S. currency; that the account itself has been recorded in U.S. dollars by both governments; that payments made in H.K. currency have been related to the U.S. dollars in which all documents have been stated at the ruling official rate of exchange between U.S. and H.K. currency; that the Hongkong Financial Secretary in a circular on trade with Japan dated 6th March 1948 stated: "imports to and exports from Japan will continue to be invoiced in U.S. currency"; that Hongkong has been specifically excluded from all trade arrangements between the sterling area and Japan; and, finally, as already quoted, the balance of the open account is liable to settlement in U.S. dollars.

It would appear to be quite certain that the open account has been maintained on a U.S. dollar basis and not in sterling.

THE ROLE OF THE GOVERNMENT

The government has taken a large part in the Japan trade and there have been many criticisms. Some of these criticisms have been specific, and many have been personal. They range from inefficiency and favouritism to downright mismanagement and dishonesty. It is understood that some of these specific grievances are being currently examined. The very fact that there are such criticisms, whether or not justified, is a part of the wider case for the limitation of the government's activities.

There is a tendency in some people, however, to refrain from an objective study of the official activities in this particular field and rather to state as a matter of general principle: "All government interference is bad. Revert to free trade and everything will be for the best. The well known laws of supply and demand will solve all problems." Such generalisations may or may not be true in some circumstances. For at least a year after 15th August 1947 when Japan was reopened to international trade they do not seem to have applied in the case of Hongkong. It seems highly probable that the operation of the "well known laws of supply and demand" may have created prices which would well have prevented trade from taking place on the scale which developed under the guidance of the government. Conditions within Japan and world monetary regulations over which the Colony had no control could have prevented anything more than a limited trade had it not been for government assistance.

It seems to have been to the Colony's advantage that, in the uncertain formative days of this trade, the administrative mechanism did not prevent firms which had played only a small part in the pre-war Japan trade from seizing the opportunities of the new situation. Prewar Japan trade had been almost entirely in Japanese hands. The postwar conditions gave Hongkong merchants a chance of new business which statistics show they did not neglect.

When compared with that of Macao or Singapore or Manila, Hongkong's

commerce was so very large that it appears most probable that government intervention promoted rather than retarded business in the early days.

It must be admitted, however, that the tendency of the government was towards a greater use of the normal banking channels as changes inside Japan made this possible. The early government to government transactions had served their turn by March 1948. Since then there have been further moves toward private trading inside Japan. It may be that the time is ripe for further relaxations by the government. The executive functions of SCAP have been mightily reduced. To some extent the strict controls over trade have merely been passed to the Japanese government and it seems certain that while there are extensive controls within Japan, the Hongkong merchant needs active assistance from his government. World monetary controls remain also but again the next step from the devaluation of sterling should be the elimination of separate dollar and sterling areas, the free convertibility of monies from country to country and the automatic elimination of black and open currency markets. Should such a change come the other main function of government operations in this trade will cease.

It may be argued that the government should supervise the trade but should not actively manage it. It can be said that while the sterling area's trade with Japan is operated by exchange controls in the sterling countries, in Japan trade operates through the approved commercial banks with little direct government intervention. The Dutch and other countries are also much less closely associated with the day to day operations of traders in in Japan than is the Hongkong government.

There is, however, one way in which Hongkong is not as other countries. It does not sell its own products, with some very important exceptions, to Japan. It cannot make a trade plan and say that for the coming year it will be able to supply definite quantities of specified commodities. The Hongkong merchant has to sell the produce of other countries and his activities depend on prices in markets over which he has no control. If the Hongkong government through its Agent in Japan can promote sales to Japan which would not otherwise take place, then the official operations are to that extent beneficial. This can be put another way. If sales are made only under a tender or bid system in Japan there seems to be no advantage in submitting such bids through the Hongkong government, although subsequent validation may assist the stability of the trade. On the other hand if there are negotiations which can be promoted by the government then the government is needed. Similarly, if it is decided that imports shall be granted according to a fixed pattern i.e. a definite proportion of return exchange to exporters and definite amounts (or specific shares of available exchange) to named importers on some previously agreed basis, then a bank can handle the export licensing system as well as or better than a government. Where, however, the government uses discretion in the allocation of return exchange in order to promote trade, or where allocations to importers are subject to variations, then the government is needed to make decisions in the public interest. At least it is necessary to act in Hongkong though not necessarily in Tokyo. Further justification for government operation of the Japan trade may be that the business is profitable and is therefore a relief to the taxpayer and not a burden.

On balance the case for the complete domination of the Japan trade by government is less strong for 1949 than for 1948. It will be weaker still in 1950. The tendency appears to be for a relaxation of controls.

GOVERNMENT PROFIT OR LOSS

It is a matter of deep concern to the business community in its role as a taxpayer to know whether the government is losing or gaining from its conduct of the Japan trade.

Profits or losses can arise from imports or exports made directly by government. Little is known publicly of the extent of such transactions but there have certainly been imports of coal, cotton yarn and rayon yarn by the government for resale to merchants in the Colony. In the absence of any official pronouncements it may be assumed that profits or losses were not excessive.

The merchant is very aware of the regular toll charged by the government on both imports and exports. As stated earlier, the government receives a commission of ½% on all imports and all exports and the spread between the buying and selling rates of seven points (402-395) is equal to almost a further one percent on every transaction. Further charges are made for handling imports. Government expenditure would appear to have been small as only a tiny staff is employed on Japan trade. Monthly statistics of trade between Japan and Hongkong show that the turnover is so large that it seems to be a safe assumption that the government has made handsome profits from the Japanese trade.

These profits would be less of course, if the government in its role as banker were financing the trade. It seems, however, that the reverse is the case. Government does not pay any cash to exporters until the shipping documents are presented for collection. If return exchange is advanced to an exporter prior to shipment being made this is not a cash advance. It is merely an import license being issued. When import licenses are granted the merchant has to pay a deposit of 25% cash at the time of opening his letter of credit (bank authority) on Japan. The government has the interest free use of this money until shipment is received in Hongkong, perhaps many months later, at which time the merchant pays the remaining 75% to obtain delivery of his goods. The merchants would appear to be financing the government unless import licenses are granted only after exports have been made to Japan. It is thought that this has not been the case.

There is one further source of potential loss to the government. If the administration departs from "the first principle that the account must be balanced" (quoting again from the letter of the Acting Director of Supplies Trade and Industry to the General Chamber of Commerce) there is the possibility of large gains or losses if there are variations in the exchange rates between U.S. dollars, in which the account is kept, and H.K. dollars, in which payments are made. The issue is complicated because of the time lag between the dates on which contracts are made (sometimes calling for deliveries of up to a year ahead) and the time at which shipments are made. A prudent banker may say that the balance should be kept in the cash position, i.e. that payments received for shipments inwards should not exceed payments made for outward shipments. Such a course would tend to retard the volume of commerce and might involve the government in financing the trade to the extent that shipments from Japan lagged behind shipments out of the Colony. If it had been followed there would presumably have been no delay by government in announcing the new rates between US dollars and H.K. dollars immediately after sterling was devalued. This vital matter will be discussed more fully later. It is mentioned here as the government's suspension of trade would seem to confirm the assumption that shipments into the Colony, or at least import licenses issued, were probably in excess of export shipments and the government would therefore have gained rather than lost on finance though it may have lost as a result of devaluation.

All the evidence points to the government having made regular profits from the Japan trade unless heavy undisclosed losses were incurred in the resale of goods imported by government and ignoring potential losses which may result from exchange losses arising from the devaluation of sterling if import licenses have been issued in excess of shipments made.

THE RESALE OF EXCHANGE

The prices of imported Japanese goods when translated into H.K. dollars at the 4.02 official rate have been extremely competitive so there has been a constant demand for import licenses and this demand has been far in excess of the supply of exchange available for allocation. It is not surprising that rights to import from Japan have acquired a value and been bought and sold at an unofficial rate which has sometimes been less than and at other times exceeded the open market quotations for the non-Japan-trade U.S. dollar. In recent months the resale value of Japan exchange has been at a very high level.

If such exchange has been received as an allocation from the government by an importer who is not maintaining an office in Japan such resale seems to be proof that an allocation should not have been given. There have been

good reasons for such allocations, such as the importation of essential goods but exporters and importers with expensive branches in Japan have criticised the government for giving exchange to merchants not actively represented in Japan. It has been pointed out that in March 1949 (in the letter to the Hongkong General Chamber of Commerce already quoted) "regular monthly allocations of exchange are being given to 38 firms represented in Tokyo and 87 others." However, these allocations may often have been inadequate to justify the opening of a Japan branch and no doubt many Hongkong firms without their own offices in Tokyo or Kobe use other Hongkong or Japanese agents and conduct a legitimate import business without selling their exchange allocation

It has been felt by the government that those firms who have set up offices in Tokyo, particularly in the early formative days, deserve regular allocations as a reward for their initiative. Most of such firms use their allocations and do not enter into the market for exchange unless, possibly, to buy.

Exporters are almost invariably importers also and so, by and large, they also need all the exchange that they receive from their exports. The volume of resale business is therefore small in relation to the trade as a whole.

There seems to be justification for an exporter selling some of the exchange to which he is entitled if heavy shipments at any particular time give him a temporary excess of import power over his immediate needs. Such action speeds up the turnover of the trade and is, therefore, in the Colony's interests. It may well be that the profits from such exchange (either by use or sale) have been a part of the exporters' calculations at the time of contracting to sell to Japan and this realistic approach is harmful only if the value of return exchange is used to undercut other Hongkong firms. In most sales to Japan the price has to be low in order to meet non-Hongkong competition and sales are made from Hongkong on a basis which includes allowance for the value of the return exchange.

DEVALUATION OF STERLING

The reduction in the value of sterling has caused the paralysis of Hongkong's trade with Japan referred to above in the opening paragraph of this review.

The new rate of sterling in terms of U.S.$ is 2.80 which been reflected in Hongkong by an official bank selling rate of H.K.$5.797 for U.S.$1 and buying rate of H.K.$5.714 for U.S.$1 which gives a mean rate of H.K.$5.756. This is an appreciation of the U.S. dollar by approximately 44%. The pre-devaluation exchange rates for Japan trade as fixed by the Dept. of Supplies & Distribution were H.K.$3.95 buying and H.K.$4.02 selling per U.S. dollar. This was approximately that charged by the authorised banks for TT New York at the official rates.

The government's problem appears to be three-fold. It has to decide the rate of exchange for (a) letters of credit (bank authorities) which have been opened for imports from Japan but which goods have not been shipped again, (b) existing contracts to sell goods to Japan against which shipments have not been completed and, (c) imports and exports between Hongkong and Japan when new contracts are again permitted.

It may have been logical to reduce the problem only to what rate of exchange should be decided for unshipped imports and exports under existing contracts on the one hand, and for new contracts on the other. The government has, however, decided upon the answer to (a) above already so it is safe to assume that the imports and exports under pre-devaluation contracts must be dealt with separately.

(a) Imports against licenses issued prior to 12th October:

The government has announced that "imports from Japan under existing licenses will now be permitted regardless of whether the goods were on board in Japan prior to the 27th September or not. Payment for these imports will be accepted at the rate of H.K.$4.02= US$1." This decision will surely be a surprise to everyone and a very pleasant windfall to all holders of imports licenses.

It is thought that the government may have made this decision for two reasons. Firstly that SCAP, almost immediately after the announcement that sterling had been depreciated, stated that existing contracts between Japan and the sterling area (which, of course, excludes Hongkong in the eyes of the occupation and the statement did not apply to Hongkong contracts) would be fulfilled at the old rate. This was a precedent. However, it applied to a very different economy. Japan like Hongkong depends on exports as the basis of its trade but Japan is treated as a hard currency area and the Hongkong internal currency is soft. Some of the major reasons for and against maintaining old contracts at the old rate are opposite in the two countries. SCAP's decision tended to promote exports and retard imports which is a sound policy for Japan. If Hongkong takes a similar step it retards exports and promotes imports and this appears to be basically unsound.

Secondly the old rate may have been retained because of the wording on the documents given by government to importers. There may be some legal justification for this view because government has said "in U.S. currency at H.K.$4.42 per US$1" but as this was approximately the official rate for the US dollar at the time and the official rate has now changed it is far from certain that the legal niceties of the situation would be a full or final explanation.

A third explanation could be that government kept in balance the payments for export shipments to Japan and the value of bank authorities opened. Informed persons do not present this as a factor in the present decision.

Of course, if the government had requested the new exchange rate to be paid for shipments made after devaluation against import licenses previously issued there would no doubt have been serious criticism by importers. The importers could say that when opening their Bank Authority, the government stated that the 4.02 rate should be paid and that, as prudent business men they had sold their goods forward on this basis. This would have been a strong argument particularly because of the difficulty in the Japan trade of obtaining an exchange hedge as cover against devaluation. The importer could have had a grievance. As it is, it is some exporters who complain that the government is showing prejudice in favour of importers. In fairness to the administrators this cannot be advanced as a reason for the official decision even though it may reflect the result. Since the basis of all these imports to Hongkong is exports to Japan the effect of this decision to permit imports at the old rate leads us to speculate as to the rate for exports.

(b) Export shipments against sales contracts signed prior to devaluation.

The government has not yet announced whether the old or new rate will apply and, of course, a public announcement may not be necessary because whatever is decided will apply only to a limited number of firms against contracts already signed.

As may be anticipated a number of exporters expect to receive the rate of exchange current at the time that shipment is made to Japan, i.e. the new rate of, say H.K.$5.72 and not the pre-devaluation rate of 3.95. It may be said that the exporters are trying to cash in on the situation arising from devaluation of sterling to which an exporter could reply that it is commercial practice to hedge against exchange risks where necessary but that it is equally customary to be paid at the rate of exchange ruling at the time of shipments. He would probably add that, like every other businessman in Hongkong, and throughout the commercial world, he has studied the possible effects of devaluation months ago and has calculated his contracts accordingly.

The exporter has also been told, sometimes unexpectedly, that he has been behind on his shipments and that he should accept the old exchange rates. This view is only partly true if at all. Many exporters to Japan have had their contracts cancelled when they were late with their shipments. Where shipments have been delayed and contracts not cancelled, it would be a hard judge who would not say that conditions of civil war and blockade may have contributed to delays. But the objection is largely irrelevant because it seems that most goods unshipped are against contracts which do not yet call for shipment.

Apart from speculations of this nature, there are the hard economic facts to be considered. Assuming that an exporter can fulfil his contract at the old rate of exchange if his costs remain unaltered, is it correct to assume that his costs will not be changed? Where contracts extend through to the middle of next year, and even over shorter periods, the answer has already proved to be "no" in some cases. In

those parts of China where the silver dollar is the currency there has been a heavy increase in prices. Freights are tending upwards, if only because costs of turning round in hard currency areas such as Japan and China, are increasing in terms of Hongkong dollars.

Should an exporter have to operate on a contract at the old exchange rates in competition with other exporters whose contracts have been made at the new rates he will be at a great disadvantage in buying, and it must be assumed that Hongkong's trade with Japan will have to be placed on the new basis sooner or later.

The simple solution will probably occur to everyone. If the government wishes to enforce old contracts at the old exchange rates then exporters cannot object if they are given a high rate of return exchange at the old rate. With 100% return exchange the rate can be fixed at any level because export costs will be balanced with import costs. With ninety or even eighty and, possibly even sixty percent return exchange it is not unlikely that exporters would be quite prepared to operate on the old rates.

Why, then, has the trade been suspended? It would seem that government could either fix the new rate for all existing contracts, which was to be expected, or if it wished to retain the old rate, which importers would be pleased to receive it would almost certainly obtain the support of the exporters by giving them a high rate of return exchange. Nevertheless, government has not fixed a new rate nor, it is understood, reached agreement with all exporters as to any other mutually satisfactory modus operandi.

The only explanation must be that these solutions would not be acceptable to the government and this can only be because it has over-advanced to importers. If, for instance, import licenses have been issued far in excess of export shipments (and any small discrepancy can be overlooked because it could be readily ironed out by a variation in the rate of return exchange) then the government would have to take a loss or else insist on export shipments at the old rate and with a low percentage of return exchange.

Taking hypothetical figures, let us assume that the government has issued import licenses in excess of export shipments to the value of US$4 million. (This figure may seem extraordinarily large but unless it is high the official attitude towards exporters is inexplicable). If the new exchange rate were adopted the government would be paying exporters at H.K.$5.72 and would have received in the past from importers H.K.$4.02. Government would incur a loss in the region of H.K.$7 million (roughly H.K.$1.72 x 4,000,000). The possibility of any loss having been incurred is made less likely by the official decision to accept unshipped goods on old import licenses at the old rate. Assuming that such unshipped goods are in the region of US$1 million (a conservative figure) the government loses about H.K.$1¾ million by its decision of 12th October. If the government has in fact over issued import licenses it is hard to understand its decision to pay on these contracts at the old rate of exchange.

As there has been no public pronouncement as to why the Japan trade has been suspended for so long these speculations may be wrong but they record a part only of the rumours which at present pass from mouth to mouth.

(c) Future imports and exports.

On the 12th October government announced that "new import licenses will continue to be refused for the present." The only possible explanation is that, for a reason suggested above or for some other cause, a new exchange rate for the Japan trade has not yet been decided.

There has been a general assumption amongst business men that the new H.K.$—U.S.$ rate will be adopted but the actual spread from the middle rate of H.K.$5.756 to the U.S. dollar is being debated. If it is agreed that selling to Japan is more easy than buying from Japan (and while this has been fundamental in the past it is not quite so certain now that the official and unofficial values of sterling are close to one another) then the spread of exchange should favour the exporter. If the difference between buying and selling is to be retained at the same seven points as in the past, it is suggested that the new selling rate should be H.K.$5.81 and the new buying rate should be H.K.$5.74 but with the yen remaining pegged to the U.S. dollar a slightly more even rate of, say, H.K. $5.79 selling and H.K.$5.72 buying may be more equitable.

However, the merchants are most concerned that new trade should be permitted again as soon as possible.

ECONOMIC NEWS FROM THE UNITED STATES

By E. Kann. (Los Angeles).

(Special to *Far Eastern Economic Review*).

The Strike Situation

The soft coal, as well as the steel strikes, continue unabated, and there are no signs for an early termination of either. A further reckless blow to American prosperity has recently been inflicted by Phil Murray's calling out of the United Steel workers employed by the Aluminium Co. of America. Strictly speaking, the aluminium strike is by no means as important as the steel strife. However, its existence easily might affect a considerable number of workers engaged in other, kindred avocations. On October 17 about 16,000 CIO aluminium workers downed tools. The walkout in the three industries idled nearly one million men. Mr. Sawyer. Secretary of Trade. predicts that, in the event of the strikes continuing for another six weeks, it might enforce the idleness of as many as five million workers.

Though government negotiators continue to find ways for a compromise, there are no symptoms of finding a road to compromise. Speaking of the aluminium strike, the management actually has conceded social benefits and pensions of 10 cents an hour; however, it desired to have them tied in with changes in the federal social-security payments, as was stipulated in the Ford settlement. Yet Murray felt that he should obtain a better bargain than Walter Reuther got from Ford.

In conducting the steel strike movement Phil Murray is recklessly endangering his leadership. The strike was called largely for political reasons, or rather it is due to the internal situation of the CIO, where Murray is combatting the radicals, with the climax to arrive in the national CIO convention toward the end of October. Murray is staking all, until the convention has been terminated, on the steel and aluminium strikes. While the convention is still pending, he feels that he must concede nothing in an eventual strike settlement, for actually merely a minor concession on his part would suffice to come to a settlement.

Speaking generally, the majority of the strikers are not so much interested in pensions, since most of them still are young and pension benefits far off for them. They much more covet a thicker pay-envelope obtainable tomorrow. Here is a clear case where the workers would have preferred to stay out of the strike, had not the command of their leader, Murray, counted for more.

Let us recall what is at stake in these extensive movements which, if continued for any length of time, would topple over the beginning recovery from the post-war recession, and convert that recession into a genuine depression Ostensibly the movement was caused by the workers demand for pensions coming from the industrialists entirely. The latter appear ready to negotiate for a workers pension scheme, if the employees contribute their share. Let us recall the reasons for starting the coal strike. The miners downed tools because the southern coal mine owners stopped paying into the fund 20 cents per ton royalty called for by an expired contract. Actually, there is evidence available that the pension funds was being exhausted by a too wide liberality on the part of the control board. Considered more closely, it must be admitted that a pension fund which can be suspended by the expiration of a contract, or by a stoppage of work, is not much help to an aging worker who relies on his pension. The coal pension plan broke down because it was not scientifically drawn up.

Like modern international wars, modern strikes do not produce victors. While loss of wages may after some time be balanced, loss of production is a permanent loss and shows up in real wages. The workmen may get a higher income after their strike, but in company with the general public they have to pay more for merchandize, the hike in costs being caused by their strike. That huge sums are lost to striking workers is self-evident; but unfortunately the public, not being directly concerned, is a still greater loser.

These are the basic facts of the current strike situation. Yet, while no silver lining is discernible so far, financiers appear to retain optimism in connection with an early and sudden settlement. Otherwise one could not have witnessed not merely the maintenance of prices for New York stocks, but even their enhanced valuation.

Local Strikes

Aside from the nation-wide coal and steel strikes, Los Angeles at the moment is plagued by what seems to be an unimportant affair, but which is more than that. Reference is made to the outbreak of a local sand pit strike. After the walk-out had been in force for three weeks, some major building and construction projects will have to be shut down, involving—and this as a start only—$600,000,000 worth of work on schools, freeways, hospitals, sewer projects and scores of other major civic and commercial structures, which will have to shut down for lack of aggregates.

Two weeks after the start of the gravel strike 40,000 men, representing 19 building lines, were thrown out of work. Most of these were not striking, but could not continue, owing to lack of basic material. The monetary loss to workers was $650,000 a day; same was bound to expand as time goes by, because other trades are liable to suffer through the suspension of all building and construction activities.

Taxation in America

The problem of taxation has nothing in common with the foregoing report on the strike situation, except that basically it also is an unpleasant topic. It is not possible to fully deal with this complicated subject, for its ramifications are to far-reaching to be discussed in a brief report. A Chinese proverb says: "Be a patriot by paying the taxes which you cannot avoid." It is not to be wondered at that the people of China, though frequently forced into paying even higher taxes than normally are due, are trying their level best to be unpatriotic in this regard, i.e. attempt to withhold taxes. The justification for this attitude is to be seen in the sad fact that the average Chinese does not obtain countervalue for taxes levied upon him. Here in America the scale of taxation is very heavy, and the number of taxes is enormous. Yet, the average tax-payer does not moan and groan, but pays up, because he feels that he is getting a good equivalent for his sacrifices.

Foremost comes the income tax which, as is wellknown, rest on the system of progressive income and corresponding taxation. It is worthy of mention that first come corporation taxes from profits; but in all cases further taxes are put on the income from dividends obtained by shareholders on stock in the very same corporations. If the stockholder dies, and he has left capital emanating from previously saved income, progressive death duties are to be paid, of course. But even when alive, and wishing to distribute his assets amongst relatives or friends, heavy gift taxes are to be disbursed.

Merely as example of what individual income taxes have to stand, the following instances are cited here:

Income after exemptions:	The tax will be:
not over $2,000 per year	20% of net income.
Over $2,000, but not over $4,000	$400, plus 22% of excess over $2,000
Over $8,000, but not over $10,000	$1,960, plus 34% of excess over $8,000
Over $10,000, but not over $12,000	$2,640, plus 38% of excess over $10,000
Over $20,000, but not over $22,000	$7,260, plus 56% of excess over $20,000
Over $100,000, but not over $150,000	$67,320, plus 89% of excess over $100,000

In additions to the direct taxes already mentioned come sundry others, like profit taxes, property taxes, etc., etc.

Indirect Taxation in America

Direct tax levies in themselves are most complicated in their composition. But they are visible, so to say. Invisible taxes burden the individual side by side. A staff writer of the Scripps-Howard newspaper chain, Earl Richert, quite recently tried to investigate this complicated subject. Brief extracts from some of the articles, published inter alia in the "Los Angeles Times," follow here.

When you buy a moderately priced automobile in the $1,600—2,000 range, you pay anywhere from $355 to $466 in taxes—mostly hidden. All told, it is estimated at least 206 separate tax transactions occur along the route of manufacture, from raw material to shiny new motor car. It is evident to many that, when buying a new car you pay $90 or more by way of Federal excise tax, plus 3% state tax, and plus license plates and registration fees. But what is not so apparent to the buyer is that in the car's selling price is also included the income and withholding taxes paid by the men who make and sell the vehicle; furthermore, the property tax, the transportation tax, and so on. General Motors officials estimate that at least 17% of their price to dealers is to cover their own corporation and excise taxes.

It will not be much consolation to know that the consumer, paying for a new automobile, is paying off: So much for interest on the war debt; so much for the army, the navy and the air force; so much for old-age pensions; so much for the Red Indians; for unemployment insurance, for public health, for the merchant marine, for the highways, for the police and fire departments, for sewers, etc. And so much to support the price of eggs; for atomic research; to support inefficient producers; for relief abroad and for relief in this country. And so much for collecting these taxes; and for the payment of salaries and many other people on the public pay roll.

Motoring vacationists pay $212,000,000 in taxes just on gasoline used on their trips. The average tax on gasoline is 6.4 cents a gallon, or averagely $10.62 per motorist. An average summer sees 20 million vacation-driven cars on the road. Other sizeable levies, of which the average motorist on vacation has to take account, are repairs and replacements on his car, all of which contain hidden taxation. People travelling by railway or air have to pay a 15% transportation tax in addition to the cost of the ticket.

Still more startling are cigarette taxes in U.S.A. The average U.S. cigarette smoker pays about 11½ cents in taxes every time he buys a pack of 20 cigarettes, selling in retail for 18 cents. Uncle Sam claim 7 cents thereof, while State taxes aggregate about 3½ cents. On top of these direct levies come the indirect taxes, which are passed on to the consumer and which total about 1 cent. State taxes on cigarettes vary considerably in the sundry States. In Louisiana as much as 8 cents a pack is charged; in West Virginia only 1 cent; Oklahoma collects 5 cents a pack, while many other charge 4 cents.

At least 100 taxes are involved in the process of producing an egg and making it available to the grocery. But the taxes of the farmer, the wholesaler and the transport men also have to be taken into account when calculating the selling price of an egg.

Experts calculate the tax cost for each quart of milk (costing 21 cents) at 8 cents. The tax cost on a loaf of bread is about 5 cents. The tax cost on a ton of coal in Chicago is $5. A pound of meat costing 75 cents contains taxes of 25 cents. A refrigerator valued at $225 includes $75 in indirect taxes. The monthly rent bill of $60 means $20 in taxes.

Undoubtedly there must be widespread prosperity in the United States, if its citizenry can afford in good grace to pay such a heavy volume of taxes.

Chinese Silver Coinage

From the few economic journals reaching here from the Far East, inclusive of the "Far Eastern Economic Review," one learns little or nothing about the emergency coinage of nationalist China. Personally I consider such records as interesting and important. In Manchu-ruled China mint directors of the provinces failed to publish coin production figures. This attitude was taken partly because statistics in general were not thought worth considering, since one could not derive direct profits from their publication. And then mint directors rarely were philanthropists; they wanted a rake-off from the copper and silver handled by them, and they usually obtained it. But in following such a policy it was not deemed judicious to publish details.

When the National Central Mint of Shanghai took over the monopoly of minting (1932-1935) absolutely reliable figures as to output, etc. were promptly published, and there is a complete record available. Then I was a member of the Mint Commission, in whose deliberations I took an active part.

The currency reform of November 3, 1935, arrested all further silver

Economic Reports from Shanghai and Tientsin

SHANGHAI

Business activity in Shanghai during the first half of October was slowed by a succession of three bank holidays in one week. A total of a half million tons of coal has been shipped to Shanghai since the communist takeover on May 27. Stockpile now totals 200,000 tons. While the restriction on gasoline consumption by industrial users has been lifted, the ban continues in effect for domestic consumers. (Gasoline now costs PB$6,000 a gallon, approximately US$1.43, at filling stations.).

Banking and Finance.—Because of the bank holidays, trading was slowed with the result that the interest rate again started down. On October 12 the official rate of interest was 1 percent while the curb interest rate was .9 percent.

In a circular issued by the Bank of China all banks are required to report all foreign currency accounts that were not closed at time of the communist takeover. Balances of these accounts are to be sold to the Bank of China at announced rates of exchange. If the deposit is in a foreign currency for which no rate has been announced, the account may be drawn upon but no further deposits are permitted. (Note: Rates are quoted for the US dollar, pound sterling, Hongkong dollar, Indian rupee, Straits dollar, Swiss franc, Australian pound, and the Canadian dollar).

All travellers in the East China area are now required to deposit all foreign currency with the Bank of China upon their entry. The currency will be returned upon their departure.

By October 10, the official rate of exchange for US dollar notes had increased to PB$4,200 while the telegraphic transfer rate was upped to 4,500 (both of which were up 300 over October 4). These rates remained unchanged through October 12. In comparison, the official US dollar rate on September 10 was PB$2,700. The 60 percent increase was occasioned mainly by payments for import cargo of the two American blockade runners.

The official rates for pound sterling on October 10 were increased to PB$8,400 for notes and to PB$11,250 for drafts, an increase of 700 and 900 respectively over October 4. Hongkong dollar notes were exchanged at PB$600 on October 10 while the TT rate was 645, an increase of 50 over the week. These rates also remained unchanged through October 12. (The sterling/US$ cross was US$2.78, the Hongkong/US$ cross was HK$697.68, while HK$17.442 equalled £1).

Black-market rates were suppressed on October 7 with the arrest of several illegal operators on that day. With the resumption of trading, however, black-market rates lagged behind official quotations. On October 10 the black rate was PB$4.100; on the following day the rate was 4,200. It was noted that the black market is apparently stabilized somewhere between transactions consummated in the future and those on a cash basis. (The black market rate is behind the official rate by about 6½ to 7%).

Total deposit figures for the People's Bank of China in September were reported as PB$69.7 billion (equivalent to approximately US$22.8 million at average official exchange rates for the month) a 42.5 percent increase over August. The bulk of these deposits were handled by state-operated enterprises and government organs which accounted for 69 percent of the total, with commercial banks handling only 27 percent.

Foreign Trade.—Declared exports to the United States from Shanghai totalled US$1,171,811 f.o.b. Shanghai in September. Leading commodities were: Tung (wood) oil, $217,670; goat and kid skins, $172,821; feathers, $166,653; bristles, $164,795; and, menthol, $90,319. 60 percent of these exports were made by private firms. Exports in August were nil due to the blockade.

Fourteen import licenses were issued in Shanghai for diesel oil, pharmaceuticals, and newsprint. Foreign exchange required for these imports, however, must be earned from export proceeds.

Import goods destined for Shanghai may now be cleared by Tsingtao customs authorities if they are landed there.

Commodity Tax.—September commodity tax collections amounted to PB$16 billion (equivalent to approximately US$5.2 million at average official exchange rates for the month). The cigarette tax furnished 70 percent of total revenue while the tax on cotton yarn amounted to 20 percent. In August commodity tax collections totalled PB$8 billion (equivalent to about US$.5 million at average official exchange rates for the month).

Commodities.—Rice: Damage to crops by last week's storm was not as severe as expected. The retail price of rice, however, was up to PB$38,000 a picul on October 12, after dropping to PB$36,-000 on October 10, as a result of a rumoured rise in prices in Wusih.

Vegetable Oils: Prices of edible oils continued to rise, however, forcing the Chinese Vegetable Oil Corporation to begin dumping operations.

Silk: The Chinese Silk Products Company plans to buy 10,000 pieces of exportable silk goods monthly.

Cotton: A private syndicate has advanced PB$2 billion in cotton loans for the purpose of collecting native cotton.

Flour: The Shanghai Food Corporation dumped 11,000 bags of flour to halt rise in flour price.

Effectiveness of the Nationalist blockade was apparent in the upswing of other than staple commodities as the result of admitted "decreasing stocks." During the last week, prices of metal products rose by as much as 50 to 100 percent. In September, dyestuffs advanced by 72 percent; paper, 108 percent; and raw rubber was up from PB$1.5 million per ton to 3.4 million. The parity deposit unit on October 12 was 762, an increase of 24 over October 4.

TIENTSIN

Foreign Trade.—On September 23 the following letter was sent by the Tientsin Bank of China to all appointed banks in Tientsin: "With a view to protecting the bona fide credit of local products in the foreign market, the Tientsin Commodities Inspection and Testing Bureau came into existence on April 1, 1949. The inspection certificate issued by the bureau for export goods, after being inspected or tested, shall be used for passing the customs. Since its establishment the bureau has enjoyed a good reputation in China and abroad. But, recently, we find it very improper that letters of credit from abroad still require as one of the conditions, the inspection certificate from private con-

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coinage. But the jet-propelled inflation in nationalist China (second half of 1948), culminating in the refusal on the part of the public to accept further paper money, caused a revival of silver coins. Some was carried on in Canton, Chengtu, Chungking and Taiwan. But to what extent and in which pattern is not made public. Formosa, for instance, had no minting plant, at least not during the past 50 years. Therefore the question arises: From which province was mint machinery transported to Taiwan?

Since the aforementioned 4 places seemingly could not produce the quantity of silver dollars actually needed, the nationalist authorities ordered silver dollars from the 3 mints in America. From official sources I am able to quote authentically details regarding recent coinage for China. It appears that the 1-dollar coins made on behalf of China were of the 23rd Year model (Sun Yet-sen sailing junk), in order to save time. Probably coinage fees, plus transport and insurance, were too expensive to continue mint operations in America, so that the undermentioned output of $30 million, shipped to Hongkong, possibly completes the order given by nationalist China. The following are details as to production:

	1949 June	1949 July
Philadelphia Mint	$9,950,000	$10,300,000
Denver	2,410,000	4,140,000
San Francisco	—	3,200,000

making a total of $30,000,000.

I hear of a larger silver dollar shipment from the American Continent, destined for nationalist China, being diverted to Manila, because Hongkong is too near Canton. However, it would be very interesting to gather full details as to recent silver coinage in and for China.

cerns other than the government bureau. Under instructions from the North China Foreign Trade Control Bureau all appointed banks are being advised to instruct their branches or correspondents abroad, that, hereafter, any £/CS opened in the order of Chinese goods should not contain clauses requiring inspection certificates issued by private concerns. In accordance with the above we beg you to observe."

Between August 1 and September 28 approximately 64 Shanghai firms were registered with the North China Foreign Trade Control Bureau for the purpose of conducting trade through Tientsin. Permissible imports for these firms were stated to include: (1) production equipment; (2) industrial chemicals; (3) mineral sand (for glass making); (4) certain textiles; (5) kerosene; and (6) vital daily necessities. With respect to exports, Shanghai firms are subject to the same regulations governing North China firms.

The communist-operated North China Import Company decided on September 26 to establish subsidiary companies at Tientsin, Peiping, and Taiyuan and four other branch offices. Its general policy is to arrange for imports and to regulate the demand and supply of imported commodities for inland markets. Imports will be confined mainly to raw and semi-finished articles.

The communist North China Oils and Fats Company was established to handle exports of fats and oils. The company will refine vegetable oils in its own mills, purchasing raw materials from the hinterland by bartering kerosene.

Shipments abroad of cotton, yarn, and silk cloth from Tientsin in the first three weeks of September were reported to have totalled 400 tons.

Finance.—Devaluation of the pound sterling was ineffective in North China where the sterling-US dollar cross rate for some time has been at or below the new sterling-dollar rate.

The official exchange rate for the pound nevertheless was raised on October 6 to PB$11,250, representing an increase of 1,750 over September 16. The Hongkong dollar rate was revised upward on October 6 to PB$650. The official rate for the United States dollar remained at the rate established on September 27, PB$4,050 for notes and PB$4,500 for drafts. (Rates in Shanghai and Tientsin are now about equal).

Commodity Prices.—Prices for staples continued to show a decline. The retail price of rice per catty dropped from PB$300 (8 cents) on September 22 to 310 (7 cents) on September 29. The Nankai University's Economic Research Institute placed the general price index on September 20 at 3,229,653, an increase of but 0.64 percent over the previous week.

Economic Reports from Thailand

A vote of confidence given the new Thai Cabinet on July 29, had only a slight stabilising effect on the economy of Thailand, which had shown but little improvement. In some important categories, export trade declined from June levels. The British financial crisis and the pound devaluation caused concern in Government and business circles, encouraging holders of large sterling balances to convert. Under Hongkong demands, the Thai baht was quoted in the open market at about 22 to the United States dollar. The Prime Minister stated that no further controls to conserve dollars would be imposed at this time.

The technical group studying the mechanical aspects of the 17 bids for railway rolling stock narrowed Thailand's probable sources of supply somewhat, with United States, British, and Japanese bids gaining favor. Many informed sources saw little hope for awarding important contracts until late 1949 or early 1950.

News that Thailand's foreign debts had been reduced to US$17,000,000 instilled greater confidence in banking circles. Press reports issued on a statement of the Minister of Finance indicated that for the first time since the end of the war Thailand had a balanced budget, with a budgetary surplus of some 353,000,000 bahts.

While curtailing its activities in one field by disposing of warehouses and certain stocks, the Government Purchasing Bureau expanded in another direction with the opening (early in August) of Bangkok's first department store. It is claimed that the new store will sell both domestic and imported goods at greatly reduced prices as compared with those asked in commercial retail outlets.

A Philippine air mission arrived to negotiate an air agreement with Thailand. It was expected that work on the agreement would be completed in a reasonably short time, in view of the fact that notes had already been exchanged between the two governments.

Exports of rice in July amounted to 72,827 metric tons, compared with 81,459 tons in June. Lack of rain with resultant delay in rice planting caused some apprehension for the next rice crop, which, with good weather conditions for the next several months, may be somewhat below last year's.

Because of sluggishness in world markets, rubber exports were sporadic. Tin-ore shipments amounted to only 37 tons (presumably this refers to tin-ore shipments to the United States), with little prospects of increased shipments unless firm and on-the-spot offers could be made by the United States representative of the Reconstruction Finance Corporation. As a result of the present United States purchasing policy, Malayan smelters have improved their position in the tin-ore market so that they no longer are offering United States dollars.

ECONOMIC REVIEW OF THE REPUBLIC OF THE PHILIPPINES

Heavy United States payments in the Philippines in 1948 again wiped out a large foreign trade deficit and, more than any other single factor, contributed to the country's economic stability. Agricultural production on the whole was disappointing. Output of the principal postwar export crops declined, and imports of rice again were necessary. Although the sugar crop increased substantially in size, production was less than 40 percent of the prewar annual average. The output of gold also increased, and exploitation of base metals was resumed, but definite rehabilitation of the mining industry continued to lag. While both exports and imports increased in value, the general pattern of foreign trade was unchanged. Imports again consisted mainly of consumer products; copra continued to dominate the export trade.

Private industrial initiative was focused mainly on immediate consumer needs, while the Government's postwar industrialization plans came to be regarded as a long-term program, with initial emphasis on power development. Reconstruction activities were directed largely to Government structures and to business and relatively high priced residential properties, to the end that low-cost housing developments have made virtually no progress since the war.

Government finances remained in sound condition and the country's monetary and banking structures were reorganized by the establishment of a Central Bank.

AGRICULTURAL PRODUCTION

On the whole, 1948 was a less successful year for Philippine agriculture than was 1947. Production of the principal export crops, copra and abaca, decreased substantially as did shipments abroad. The tobacco crop declined slightly and, while the rice harvest showed a meager increase, domestic rice was in short supply during the fall of the year. Corn production was down several percent.

In contrast, sugar production, though still far from normal, increased manyfold, and output and shipments of canned pineapple approached prewar levels. Root crops and leafy vegetables were available in greater quantities than ever before, and contributed in large measure to the over-all favourable food supply situation. These latter factors, however, did not offset the less favourable agricultural production in 1948. The general outlook for 1949 appears brighter both for export crops —with the exception of abaca—and for foodstuffs for domestic consumption.

Coconut Products

In 1948 the Philippines shipped to world markets 625,630 long tons of copra and 41,985 long tons of coconut oil, compared with 968,432 long tons and 23,251 long tons, respectively, in 1947. Total exports of copra and coconut oil in terms of copra amounted to 695,705 long tons, in contrast with the all-time high of 1,005,338 long tons for the preceding year. Typhoon damage to coconut trees late in 1947 was largely responsible for the significant decline in shipments of copra as such. Tentative forecasts indicated that exports of copra and coconut oil in terms of copra would reach about 800,000 long tons in 1949.

Prices for copra hit an all-time high in May 1948, when a few transactions were recorded at $330 per long ton f.o.b. At no time during the year did prices fall below $240, and they remained fairly constant at about that level for the last 6 months. With the general improvement in the world fats and oils situation, it is anticipated that average prices in 1949 will be substantially lower than in 1948.

Domestic consumption of copra in 1948 amounted to 95,000 long tons, and edible manufactured products of coconut oil—such as margarine, cooking oil, and shortening — were available in quantities sufficient to meet local demand. In 1949 production of these commodities, together with soap, is expected to show an increase as a result of stringent quota limitations on imports.

Two new copra crushing plants were opened in 1948: one at Cebu and the other at Manila. Total Philippine crushing facilities, according to an unofficial survey, could utilize about 465,000 tons of copra annually to produce some 279,000 tons of oil, should all crushers operate at full capacity.

Desiccated coconut output for 1948 was estimated at 60,278 short tons; practically all went to the United States. If demand continues heavy, 1949 production may reach 60,000 or 70,000 short tons, the equivalent of some 81,000 to 87,000 tons of copra.

Abaca

Abaca production in 1948 amounted 586,608 bales and exports to 594,724 bales. This represented a considerable drop compared with output and shipments in 1947, which totaled 796,194 bales and 752,704 bales, respectively. Average annual prewar production was about 1,500,000 bales. (Bale equal 278.3 pounds.) A fairly large carry-over from 1947 explains the excess of exports over production in 1948.

The Davao region, southern Mindanao, produced 41 percent less fiber in 1948 than in 1947. Neglect of the former extensive Japanese-owned plantations in this area and continuous over-stripping of the plants by squatters and guerillas, who took possession of the plantations following liberation of the Philippines, have caused serious deterioration of the abaca industry in Mindanao. Possibly no more than 10 or 15 percent of the 58,000 hectares of ex-Japanese lands remain in good order. (Hectare equals 2.47 acres.) New abaca plantings, totaling from 10,000 to 12,000 hectares, cannot compensate for the loss, not only because of the small area involved but because about 3 years are required before most new plantings reach a good bearing stage. Large-scale plantations, moreover, are no longer developed, the agricultural pattern being characterized by the small subsistence farm. Typhoon damage in the Bicol area, southern Luzon, and in the eastern Visayas also served to reduce the production of abaca in 1948. Although recovery has been relatively good, no significant improvement in output is anticipated for the Bicol region because of the scarcity of new planting which will come into bearing, and the general lack of care expended on existing acreage.

Because of these factors, over-all abaca output in 1949 is unlikely to show any real advancement, and it may even decline to about 575,000 bales, according to early forecasts. If anticipated Government financial aid is extended to planters soon enough, the waning industry may be able to rehabilitate, itself and increase production to some extent by 1950, although new plantings made in 1949 could not yield fiber until late 1951 or 1952.

The two cordage plants in the Philippines, both located in Manila, consumed an estimated 7,200 metric tons of abaca and maguey fiber in 1948 in the production of approximately that amount of rope and twine. About 85 percent of the fiber used was abaca. Exports of cordage totaled 3,660 metric tons compared with 2,342 tons in 1947, and the annual prewar average of 7,700 metric tons. Lack of foreign exchange on the part of some potential buyers kept cordage production at a comparatively low level. It is believed, however, that output may be slightly higher in 1949. In addition to the commercial manufacture of rope and twine by the Manila factories, there was also a significant cottage production of hand-lay rope, twine, fishing nets, and similar articles, chiefly around the Bicol peninsula. About 10,000 bales of fiber are used annually in this activity.

Sugar

The 1947-48 sugar crop amounted to 398,040 short tons, compared with 84,200 tons in the 1946-47 season. The prewar annual production was 1,075,000 tons. About 243,900 short tons of the 1947-48 crop were exported to the United States during the calendar year 1948, whereas in 1947 only token shipments were made. It is anticipated that production in 1948-49 will total approximately 723,300 short tons, of which probably 570,000 or 580,000 tons will move to the United States. The remainder will be consumed locally.

Output of refined sugar in 1948 was confined to the refinery on the island of Negros, which produced some 500,000 bags of 100 pounds net. The Government-owned Insular Refinery did not begin operations until early 1949. Forecasts indicate that production by both refineries in 1949 will amount to over 600,000 bags. No exports are expected.

In 1948 sugar sold on the domestic market commanded higher prices than that exported. Raw sugar of 97° polar-

ization for export was priced at 12.50 and 13 pesos per picul, while the same quality sugar sold locally for 18 and 19 pesos per picul. (Picul equal 139.44 pounds and peso equals U.S.$0.50.) Despite the high price, domestic consumption of sugar by soft drink manufacturers and bakeries was several times the prewar level.

Tobacco

The tobacco crop for 1947-48, harvested from 33,680 hectares, was officially estimated at 17,280 metric tons. In 1946-47 the output was 17.655 metric tons, while prewar production averaged about 36,000 tons annually. Typhoons and floods in late 1947, drought conditions in the spring of 1948, and worm damage at harvesting time all contributed to the small crop of 1947-48. The outlook appeared more promising, however, for the 1948-49 crop, which may reach 24,000 or 25,000 metric tons, according to official opinion. Prices paid for tobacco in 1948 were higher than in 1947 because of the short yield.

Except for cigarettes, domestic manufacture of all tobacco products was larger in 1948 than in 1947. Further expansion of production is possible with existing facilities but the cheapness and popularity of imported products and the inadequacy of supplies of local tobacco act as deterrents. The output of manufactured tobacco products in 1948 was as follows: Cigars, 88,655,859 units; cigarettes, 1,815,404,277 units; smoking tobacco, 197,841 kilograms; and chewing tobacco, 145,506 kilograms. (Kilogram equals 2.2046 pounds.) The number of manufacturers totaled 103; 32 were in and around Manila. In 1947 production amounted to 58,034,412 cigars; 1,867,710,700 cigarettes; 100,809 kilograms of smoking tobacco; and 104,534 kilograms of chewing tobacco.

Exports of tobacco products in 1948 were only a fraction of the prewar level, and in the case of leaf tobacco, cigarettes and tobacco scraps, shipments showed a considerable drop compared with 1947. The limited leaf exports were due to the lack of dollar exchange in principal markets, a situation which will doubtless continue to affect the volume of trade in 1949.

Pineapples

The large American-operated pineapple plantation and cannery in northern Mindanao exported 17,915 metric tons of canned pineapple in 1948. No shipments were made in 1947. It is anticipated that exports for 1949 may reach about 30,000 tons.

Domestic Food Products

Rice.—The 1947-48 rice crop amounted to 50,928,480 cavans of palay (rough rice), harvested from 2,026,380 hectares, compared with 49,957,563 cavans in 1946-67.[1] Central Luzon provided slightly more than 33 percent of the total. Prewar production averaged 51,401,660 cavans annually. The latest unofficial estimates indicate that the 1948-49 crop may reach approximately 54,800,000 cavans of palay, harvested from 2,132,000 hectares.

The shortage of rice during the fall of 1948, particularly in the larger cities and in certain deficit rice-producing Provinces, was described as the most critical since liberation. Rice almost disappeared from the open market and undercounter sales at inflated prices became the usual rule in the trade. Prices finally reached 2.30 pesos per ganta in October, compared with about 1.30 pesos in the early spring months. (Ganta equals about 5 pounds.) By November first supplies of new crop rice reached the market and allocations requested by the Philippine Government from IEFC (International Emergency Food Council) arrived to alleviate the emergency. As of the end of December prices had decreased to 1.45 or 1.50 pesos per ganta, and the supply situation was fairly normal. Rice imports for the calender year 1948 amounted to 120,000 metric tons, while the total quantity distributed by NARIC (National Rice and Corn Corporation) amounted to 151,292 tons. Approximately 70 percent of the rice distributed was sold in Manila, according to unofficial estimates.

Supplies from the 1948-49 domestic crop should be sufficient to meet most requirements until mid-1949. Stocks held by NARIC—14,615 metric tons as of January 1, 1949—together with 50,000 metric tons of imported rice allocated to the Philippines by the IEFC for the first 6 months of the year will supplement the crop. Loans received from Indonesia and Hongkong in 1948 must be repaid out of imports, however, and additional imports doubtless will be needed during the latter half of 1949 to prevent a recurrence of the 1948 shortage.

Corn.—The 1948 production of corn was estimated at about 525,000 metric tons, compared with 564,780 tons in 1947 and the prewar annual average of 516,900 tons. It was predicted that the 1949 crop would yield approximately 560,000 tons. Corn is the principal foodstuff of almost one-third of the population.

Root crops and leafy vegetables.—During the 1947-48 season total production of root crops — sweet potatoes, cassava, tugui, gabi, arrowroots, and Irish potatoes—amounted to 1,119,029 metric tons. Before the war an average of 615,021 tons of these vegetables were harvested each year. There was considerable substitution of root crops for rice during the 1948 shortage. Leafy vegetable output in 1948 was estimated at about three times the prewar level, and abundant supplies were available in the markets throughout the year.

Livestock

Official estimates of the Philippine livestock population in 1948 were not available. It was generally agreed, however, that hog numbers were fast approaching the prewar level while recovery among other classes of livestock was relatively slow. Most notable shortages were in cattle, number of which were unofficially calculated to be about 750,000 in contrast with the 1,349,260 head reported in the Census of 1939. In 1948 carabaos probably numbered 2,100,000;[2] hogs, 4,000,000; horses, 250,000; whereas before the war their numbers totaled 2,900,000, 4,350,000, and 370,400, respectively. Poultry numbers in 1948, chiefly chickens, were about 23,000,000, compared with 26,000,000 in prewar years. Survivors and progeny of about 100,000 baby chicks imported in 1946 have supplied local markets with increasing amounts of fresh eggs and meat.

Beef continued in short supply in 1948, and prices of all meats varied from four to six times prewar levels, depending upon the kind and grade. Filipinos, however, are not heavy consumers of meat, generally preferring fish.

MINING

Gold

Five lode mines operated during 1948 and there was some placer mining. Total output including a small amount of silver, was valued at 14,600,000 pesos at the legal price of 70 pesos an ounce, or 18,800,000 pesos at the free market price, according to available estimates. Only three mines were active in 1947, producing gold valued at about 4,000,000 pesos at the legal rate. Forecasts indicated that 1949 production of gold, including a small silver byproduct, probably would not exceed 25,000,000 pesos at free market prices. Before the war, when 30 or more mines were in operation, gold valued at approximately 60,000,000 pesos was produced annually. (Peso equal U.S.$0.50).

Aside from the problems of capitalizing rehabilitation of prewar mines, operations have been delayed by prospects of higher labour costs and the doubt that a free market for gold will continue at 1947 and 1948 levels. Uncertainty as to the possible revival of bills, once vetoed, proposing to nationalize the practice of mining engineering has also been a deterring factor.

One of the larger active mines reportedly has under construction a refinery which would produce 24-carat gold for sale in the local market.

Copper

The principal prewar producer of copper concentrates reopened in June 1948, milling at the rate of 250 tons a day, and reaching a capacity of 500 tons by the end of the year. No other copper property has been rehabilitated. Total output of copper concentrates, including some gold, was officially estimated at 5,704 tons valued at 1,965,500 pesos. Regular shipments to the United States started in October 1948 under a con-

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[1] 1 cavan of rough rice equals 44 kilograms (about 97 pounds), the equivalent of 28 kilograms (about 62 pounds) of cleaned rice.

[2] The number of carabaos available for work animals appeared to have improved greatly since the wartime losses. This was borne out by a survey conducted early in 1949 which indicated a surplus of draft animals in 11 Provinces, a sufficient supply in 22 Provinces, and a deficiency in 16.

tract whereby copper derived from the concentrates must be sold by the American smelter at a stipulated price and the gold byproduct returned to the Philippines. (Copper content of concentrates averages 4.87 percent per ton, and gold content, about 0.116 ounces per ton.) The copper company in operation is expected to mill concentrates valued at about 6,000,000 pesos in 1949, as well as some 2,000,000 pesos' worth of gold.

Chrome and Manganese

Shipments of refractory-grade chrome ore approximated 233,000 tons, valued at 4,000,000 pesos, in 1948, an increase of somewhat over 20 percent compared with 1947. The two mines producing metallurgical chromite exported about 14,600 tons of ore worth roughly 500,000 pesos. None was produced in 1947.

Only minor exploitation of manganese resources has taken place since the war. Output of the ore in 1948 totaled 25,665 tons, valued at 861,190 pesos. Shipments were somewhat less, with Japan and the United States receiving almost equal shares. Two new companies were organized to begin production in 1949, but it was not anticipated that exploitation of manganese deposits would advance rapidly at prevailing market prices. The industry is in need of more efficient mining operations and more economical ocean transportation, and major difficulties exist in establishing uncontestable rights to hundreds of small concessions granted before the war, the records of which were lost.

Iron

Regular shipments of iron ore to Japan under private contract with SCAP (Supreme Commander for the Allied Powers), Tokyo, were approved in September 1948. The delivery of 200,000 tons of ore in exchange for 8,500 tons of Japanese steel mill products was agreed upon. First shipments of ore were made from stockpiles, but restoration of the mine involved was begun. Since signing the contract, two additional mining interests have made arrangements with SCAP.

Coal

The Government's two coal mines in Cebu operated continuously in 1948. One of the mines consistently produced at the rate of 120 tons per day, while the capacity of the other was about 100 tons a day. The Government's Malangas mine in Mindanao was closed during most of the year but reopened at the end of 1948 to supplement supplies of Cebu coal for the expanded cement industry. The mine produced, at the rate of about 100 tons a day, the best grade of coal so far discovered in the Philippines. The coal industry appears capable of satisfying present requirements of cement plants and minor needs of railroads and forges. Most prewar uses for coal have disappeared. Railroads have converted almost entirely to oil; the Manila gas plant has not been rehabilitated; and postwar industries generally are using electrical or oil burning machinery.

Oil

The Philippine Oil Development Company drilled three test wells on its Bondoc Peninsula lease (southern Luzon) and continued a geophysical survey at its Cebu lease. The presence of oil was confirmed by each of the drilling operations, but prospects of a commercially profitable flow were not established. The company's program for 1949 called for the drilling of one more test well at Bondoc and two at Cebu. The Government's Oil Commission, created in 1947, announced its recommendations in June 1948, proposing that (1) the Government enter into contracts with private foreign corporations for large-scale exploration; (2) areas of individual concessions be limited; (3) royalties be paid to the Government and to owners of lands exploited; and (4) that a guarantee be obtained from concessionaires that work would be undertaken within a reasonable length of time. The Government then proclaimed that franchises would be limited to 25 years but would be renewable and that territory assigned to any company could not exceed 1,000,000 hectares for exploration or 500,000 hectares for exploitation. Total potential commercial oil fields in the Philippines cover approximately 5,000,000 hectares, according to the Commission. There is no refining of petroleum products within the country, but the production of asphalt from imported oil was introduced in 1948.

INDUSTRIAL OUTPUT

Private Enterprise

The pattern of postwar private industrial enterprise became fairly clear in 1948. Companies in profitable operation have reinvested, both from reserves and new capital, for rehabilitation and expansion of their plants in advance of receipts from settlements of war damage claims. Many such firms had sound credit based on well-established markets abroad. Most new manufacturing started since the war has been directed, on the other hand, to the immediate consumer market. In certain fields profits have been sufficient to recover quickly a substantial part of the investment or to expand. Of total loans for factories made by the Rehabilitation Finance Corporation in the first two years of its existence, aggregating 18,800,000 pesos, 6,500,000 pesos went to three Government projects and only 12,300,000 pesos to 242 private manufacturing operations. It is anticipated that funds made available by the recently established Central Bank may give added impetus to private manufacturing.

Meanwhile the production of beer, soft drinks, ice cream, and dry ice has expanded rapidly, and output of rubber-soled shoes is expected soon to reach 20,000 pairs a day. The shoe industry was unable in 1948 to undersell similar products imported from Hongkong and sought protection through antidumping restrictions and import control regulations. Two companies started in 1948 to make plastic tiles and another to produce asbestos-cement wall-board and roofing sheets. Other manufacturing companies organized in 1948 included establishments for the local finishing and assembling of cosmetics, the extraction oil directly from coconuts (using the first invention patented in the Philippines), and two companies for the manufacture of fishing nets, reportedly to provide 20 percent of the country's requirements.

The only Philippine chemical plant has been dormant since the war because of little demand for liquid caustic soda, and the privately owned mill also remains inactive.

More than 380 sawmills were in operation as of December 1948, and their aggregate average daily production capacity for sawn lumber was approximately 2,498,000 board feet. In 1940, there were 148 sawmills in the Philippines, with a total average daily capacity of 1,800,000 board feet. Complete data on production of rough sawn lumber for the entire year 1948 are not available, but for the first 9 months mouths output amounted to 296,530,000 board feet, compared with an annual average production of 340,000,000 board feet before the war. The over-all production rate for sawn lumber tended to level off somewhat during the last half of the year, primarily because of official price controls, the good stock position of local lumber yards, and the disappointing volume of exports.

In the first months of 1948 exports of sawn lumber, and of logs and flitches of specified quality and dimensions, were limited to 20 percent of the production of each concessionaire. Quotas were raised to 50 percent in June, when grade restriction were relaxed also, and permission was granted for the transfer of quotas from one company to another. It appeared, however, that sources of supply of United States consumers of imported hardwoods may have shifted in part to other countries during the period of prohibitive restrictions on exports from the Philippines. In spite of continued appeals of the lumber industry that export controls be lifted entirely, restrictions in force at the end of 1948 were again adopted in January 1949.

Government Enterprise

The Government's industrialization program has come to be regarded as a long-term project. Except for certain specific developments indicated below, attention in 1948 was focused on hydroelectric projects, with decisions on other major undertakings pending the expansion of power facilities. In the fall of 1948 a loan was negotiated with the World Bank for $15,000,000 to cover foreign exchange costs of two hydroelectric projects in Luzon. Funds were not made available, however, pending the submission of specifications, cost estimates, and other data required by the Bank.

Official spokesmen reiterated the Government's policy that Government participation in industry would be as a pioneer in fields where private capital is hesitant to enter. With the exception of Government participation in the production of concrete construction blocks and operation of a planing

mill, the announced policy appeared to have prevailed in 1948. The chief Government manufacturing operations in 1948 were as follows:

Textile mill.—With the exception of losing nearly a month's production because of strikes, the National Development Company's textile mill operated at from 70 to 80 percent of its prewar capacity until December, when it was reported to have reached prewar production of yarn and cloth. The 17,000 spindles left by the Japanese were not utilized.

Cement plant.—Supplying the major part of cement used in reconstruction activities, the Cebu Portland Cement Company produced 704,000 barrels. Erection of a new plant designed to double the company's capacity was well advanced by the year end.

Lumber.—The finishing mill bought in 1947 was erected at Batangas and started to produce planed boards on a limited scale in November 1948. Plans were abandoned for utilizing the sawmill also purchased in 1947.

Sugar refinery and paper plant.—The Government's sugar refinery was completely restored early in 1948 but was not in operation until February 1949. A paper mill was constructed adjacent to the refinery for the production of bags for sugar and cement, but operation of the plant was deferred because of delays in receiving machinery.

Nail plant.—The nail plant in Manila started operation on a restricted basis as 13 of its 17 machines had not arrived from the United States. An ultimate capacity of 5,000 tons a year is planned.

Electric bulbs. — Early in 1948 the Government entered into cooperation with American and Filipino interests in the establishment of a factory for the production of electric light bulbs, and before the year's end sample bulbs were being made.

Fertilizer plant. — An appropriation of 5,000 pesos was authorized for a fertilizer plant in Luzon, for which an American chemical manufacturer is expected to purchase equipment.

Agricultural machinery.—The National Development Company's agricultural machinery project remained in an experimental phase, awaiting the receipt of Japan reparations tools, over 1,000 of which were earmarked for the company.

ELECTRIC POWER

Demand for electric power in Manila increased steadily in 1948, reaching a monthly consumption more than twice as great as the prewar monthly average. The increase was principally in residential and commercial demand rather than in industrial use of electricity. Production by the Manila Electric Company totalled 361,510,000 kw.-hr., compared with 255,981,000 kw.-hr. in 1947. Although the company's capacity was raised to 90,000 kilowatts, it was anticipated that demand would exhaust all facilities before the end of 1949. A new steam plant under construction was expected to be ready for operation in the latter half of 1950, while a third generator on order from the United States was scheduled to be installed in 1951. Outside of Manila, service was not resumed in at least 30 communities which had electricity before the war. Even in Cebu—second largest city—rehabilitation was still far from complete and power was offered for only a part of each day during 1948.

An ambitious program for the development of hydroelectric power was planned by the Philippine Government in 1947 at an estimated cost of 176,000,000 pesos, and application was made in 1948 to the International Bank for Reconstruction and Development for a loan to finance the various projects. In November the Bank announced that up to $15,000,000 would be advanced for the purchase of machinery and services from abroad for two projects in Luzon, provided engineering specifications, cost of construction estimates, and power market potentialities met certain requirements of the Bank.

RECONSTRUCTION ACTIVITIES

While building activities on the whole increased in 1948, the erection of low-cost housing developments continued to lag far behind the construction of business property and relatively high priced residences. Construction projects in Manila reached an aggregate value of 82,792,000 pesos, compared with 73,907,000 pesos in 1947. The reconstruction of several Government buildings in Manila was accelerated in 1948, contributing materially to the general impression of rehabilitation of the city. A great deal of progress was made also in paving Manila's streets and in clearing them of peddlers and squatters, but it appeared that the National Urban Planning Commission's activities had settled into a long-term city improvement program.

LABOUR AND SOCIAL AMELIORATION

In August 1948 President Quirino's Action Committee on Social Amelioration (PACSA) was organized under direction of the Commissioner of Social Welfare. Accomplishments claimed by the PACSA included the extension of relief assistance to about 700,000 needy people, care of displaced persons, and the gathering of data regarding social problems in rural regions. Loans were extended to tenant-farmers in central Luzon — scene of considerable unrest since the war—and rice seed was obtained for distribution through the Department of Agriculture. A Labour-Management Advisory Board also was established in 1948 and a conciliation service inaugurated to relieve the Court of Industrial Relations in a large proportion of industrial disputes.

The average wage paid in 1948 increased by a small percentage during the year. Upward adjustments in a great many companies were not entirely offset by the few reductions. Although strikes occurred, notably in the fourth quarter there was no serious interruption of essential public services or basic industries.

The Philippine Government joined the International Labour Organization early in 1948, sending delegates to the San Francisco and Bangkok conferences.

FOREIGN TRADE

Philippine foreign trade in 1948 maintained the unprecedentedly high values which have marked the postwar period. Notwithstanding generally heavy inventories and the effects of higher luxury taxes and of United States maritime strikes, the value of imports established a new record of 1,171,700,000 pesos, an increase over 1947 of 15 percent. Export trade, valued at 636,100,000 pesos—including reexports amounting to 43,800,000 pesos—represented an advance of 20 percent over the preceding year's record high. The visible trade deficit in 1948 was again about 500,000,000 pesos, and again was largely offset by continued heavy remittances from the United States.

Import Trade

Preliminary details indicated that while trade in consumer products remained very active, imports of such durable goods as iron and steel and machinery registered gratifying increases. Lower imports, on the other hand, of such important consumer items as cotton textiles and wheat flour reflected the natural forces of market saturation. With the more widely diffused purchasing power which has followed the distribution of United States expenditures since the war, coupled with the example of tastes and habits set by the United States Armed Forces, public demands have become far greater than before the war for a number of United States products, particularly such items as fruits, flour, milk, meat, Virginia-type cigarettes, rayon goods, electric appliances, and various toilet preparations. Imports of products of this nature will be curtailed only by such factors as Government control, domestic production of substitutes, or reduced purchasing power. None of these factors existed in 1948.

Imports from the United States accounted for 83 percent of the total import trade. Additionally, a considerable portion of petroleum products imported from other countries was purchased from United States firms in those countries, while many imports from Canada consisted of products of subsidiaries of American firms. Trade with China, the second source of supply, comprised but 4 percent of the total. Although general regulations governing trade with Japan were not established in 1948, a policy of dealing with Japan through SCAP, with the Government exercising strict control of transactions, was officially announced. It was determined that imports from Japan should be focused on durable goods. The year's imports of Japanese products were valued at 4,192,000 pesos, or less than 1 percent of the total, in contrast with approximately 15 percent in the best prewar year for Japanese imports.

Much of the trade with countries other than the United States arose from temporary influences, such as delayed deliveries from the United States and insufficient domestic production of rice. Regular non-American sources of supply exist in such items as jute and burlap from India, glass and tiles from Belgium, meat and dairy products from Australia, coffee from Brazil and Java, and watches from Switzerland.

Export Trade

Copra maintained its unchallenged postwar position as leading Philippine export. Although lower in both quantity and value than in 1947, exports of copra accounted for 50 percent of the total value of export trade. Shipments of all other coconut products, notably desiccated coconut, increased substantially in volume and value. The capacity of the desiccated coconut industry expanded materially, but further increases in exports are expected to be more than offset by lower prices. Government limitations on exports of vegetable lard and butter to 20 percent of production will reduce those articles to minor export importance.

Although shipments of sugar were many times the token exports in 1947, sugar attained only third place in importance, following copra and abaca in the export trade. Other formerly important export products, such as mineral ores, embroideries, and canned pineapples, registered noteworthy gains, but copra remained the only leading commodity which has far exceeded prewar production and export. Shipments of logs and lumber in 1948 increased because of the midyear easing of the embargo. Trade in tobacco products fell below the preceding year's insignificant volume, as rehabilitation of the tobacco industry continued to lag.

Sixty-five percent of Philippine exports went to the United States, compared with 57 percent in 1947. All products subject to quotas under provisions of the Philippine Trade Act of 1946, and Agreement implementing the Act, remained at but a fraction of the allowable quotas, as indicated below:

Commodity and unit	*U. S. quota*	*Exported to U. S. in 1948*
Coconut oil .. long tons	200,000	41,089
Sugar .... short tons	952,000	243,000
Cordage .... pounds	6,000,000	2,247,666
Cigars .... number	200,000,000	1,324,258
Scrap, filler tobacco .... pounds	6,500,000	42,091
Pearl shell buttons gross	850,000	378,769

Japan and France followed the United States as Philippine markets, each taking 4.8 percent of the total exports. The official policy specified that only surpluses not marketable in favoured countries would be exported to Japan, and would not include any materials of possible use in rebuilding the Japanese war potential. In addition to shipments of copra and abaca to Japan, licenses were granted for exports of manganese ore and coal, the latter in exchange for cement. In August 1948 the shipment to Japan of 200,000 tons of iron ore over a 12-month period, in exchange for approximately 8,500 tons of finished iron and steel construction materials, was authorized.

Trade Controls

In June 1948 an Import Control Law was passed in accordance with recommendations of the Joint Philippine-American Finance Commission, made in 1947, that imports of luxuries be controlled in order to conserve dollar exchange and divert purchasing power to productive channels. It was not until December 28 that the Executive Order implementing the law was issued, and the actual imposition of controls was not effective until January 1, 1949.

The Executive Order established a list of nonessential articles for which the Import Control Board was authorized to fix quotas in accordance with specified percentage reductions from imports during the base period of July 1, 1947, to June 30, 1948. The most drastic reductions were applied, not to obvious luxuries, but to imports which conflict with domestic industries, notably rubber-soled shoes and the most common cotton piece goods and weaving yarns. The amount of internal revenue at stake was considered in the reductions established for such items as cigarettes and beer, and for certain other products public demand was recognized by limiting controls to higher-priced merchandise. Under the regulations, 20 percent of every quota was reserved for new importers.

The maximum possible conservation of dollars under the import control program, based on 1947-48 levels of trade, was estimated at from 80,000,000 to 90,000,000 pesos a year, or roughly 8 percent of the total import trade. It was anticipated, however, that with the substitution of uncontrolled commodities and the probable increase in imports of durable goods, the actual saving would be considerably less.

The President's emergency authority to control exports in the interest of national rehabilitation expired at the end of 1948, but was extended by Executive Order No. 192 of December 24, 1949. The order listed specific commodities which may not be exported to any country, including the United States, without a special license. The list included most of the foodstuffs, textiles, building materials, and other essential commodities which formerly required specific export licenses to all countries except the United States. Additionally, certain scrap metals, pig lead, and products imported from the United States under export allocations were placed under control.

TRANSPORTATION AND COMMUNICATION

Aviation

Four carriers operated aircraft under Philippine registry at the close of 1948, one offering scheduled service and the others non-scheduled. Philippine Airlines, Inc. (PAL), however, dominated Philippine aviation during the year, and its traffic showed a continual increase. The European route was extended to include London, and consideration was given to establishing a route to Sydney via Batavia and Darwin.

The Manila International Airport was officially established early in 1948, when operation of Nichols Field was turned over to the Government by the U. S. Army. Work was started immediately to develop the airport, with the U. S. Civil Aeronautics Administration in charge of the program, costs for which will be met by United States funds appropriated under terms of the Philippine Rehabilitation Act of 1946. The National Airports Corporation was created by the Philippine Government and charged with operation and development of the Manila airport and nationally owned landing fields other than those used primarily by the armed forces.

Highway and Motor Transportation

Overland transportation by bus and truck increased in importance in 1948, particularly on Luzon, Cebu, Panay, and Negros Islands, where roughly five-sixths of the country's first-class highways and two-thirds of its total road mileage are located. Competition developing from the use by some companies of Diesel units caused significant consolidations of truck and bus lines, providing improved and more economical service. As of June 30, 1948, there were 44,789 registered trucks and buses, more than double the prewar number, and 28,823 passenger cars in the Philippines.

New highway construction in 1948 was negligible, but the condition of existing mileage was steadily improved although few of the numerous temporary bridges erected during the war were replaced. Three new temporary bridges were constructed across the Pasig to relieve Manila's traffic congestion, and the contract was let for reconstruction of the Jones Bridge, scheduled for completion in November 1950.

Railroads

The Philippine Railway Company, with 116 kilometers of line on Panay island, continued to function with the repaired rolling stock salvaged after the war. (Kilometer equals 0.62 miles). No attempt was made to rebuild the company's Cebu line. The Government-owned Manila Railroad Company completed rehabilitation of its main line south of Manila to the prewar terminus at Legaspi, bringing its total trackage to 894.5 kilometers. Operating losses of the Manila Railroad in the fiscal year 1947-48 reportedly amounted to 1,456,000 pesos, compared with 2,496,000 pesos for 1946-47. The long-standing inability of either railway company to pay its way, together with heavy reconstruction costs and growing competition from bus and truck lines, appeared to preclude the possibility that all prewar lines would be rehabilitated.

Interisland Shipping

In late 1948 there were 92 vessels of 500 gross tons and over operating in interisland trade, with a combined gross tonnage of 79,232 and net tonnage, 41,090. Nine of the vessels, with a total of 28,140 gross tons or 15,600 net, were chartered to Philippine agents by the U. S. Maritime Commission under provisions of the Philippine Rehabilitation Act. More than half the motor vessels in interisland trade were boats of small-cargo capacity received as surplus from the U. S. Army.

Harbour Conditions

Rehabilitation of Manila North Harbour progressed during 1948 under supervision of U. S. Army engineers. Completion of certain bulkheads was expected by May 1949 and of the breakwater by the end of September 1949. The South Harbour, used for deep-sea vessels, remained crowded. While work progressd on pier 9, completion was not expected until 1950 and rehabilitation of pier 13 was not scheduled to begin until May 1949. In September 1948, a contract was signed by the Philippine Government and commercial interests in the Philippines and Hongkong for the salvaging of vessels in Philippine waters.

Communications

Radio. — At the end of 1948 the Philippine Broadcasting Corporation and Manila Broadcasting Company each had one 10,000-watt and one 1,000-watt station in Manila and another 1,000-watt station in Cebu. A new noncommercial 1,000-watt station was erected in August by the Far Eastern Broadcasting Company, a nonprofit corporation owned by Protestant churches. Construction of a 1,000-watt transmitter was started in December by Silliman University at Dumaguete, Negros island.

Relay facilities of "Voice of America" were increased by the addition of two transmitters, both powered at 50,000 watts, and reception for relay purposes was improved by the erection of a first-class receiving station.

Telecommunications.—Domestic telegraph facilities steadily improved in 1948, and a total of 523 stations, of which 149 provided radiotelegraph service, were reopened by the end of the year. At the peak of operations before the war there were 578 stations. Interisland cable lines, and in some areas, land lines, have been replaced largely by radiotelegraph circuits. Private competition in radiotelegraph service was offered for the first time in many years by the opening of commercial offices in Iloilo and Cebu.

International radiotelegraph and cable services comparable with prewar facilities were offered from Manila by six private companies, while the first commercial international radiotelegraph station to be opened outside Manila since the war was established in Cebu.

Telephone.—At the end of 1948 approximately 8,800 telephones had been connected in Manila, and about one-sixth of that number in outlying areas. Before the war there were some 30,000 telephones in use in the Philippines, 26,000 of which were in Manila. Telephone services were partially restored in 1948 in Cebu, Bacolod, Iloilo, and Davao.

Long-distance service was offered from Manila as far north as Baguio City, and south to Calamba, Laguna. Installation of equipment for radiotelephone communication between Manila and Cebu was nearing competition at the end of the year. All commercial local and long-distance services in the Philippines are provided by the Philippine Long Distance Telephone Company, which in 1948 also operated three international radiotelephone circuits: two to San Francisco and one primarily to Hongkong. Calls were made on the latter circuit to Shanghai and Okinawa also.

FINANCIAL DEVELOPMENTS

Central Bank

On June 25, 1948, the bill creating a Central Bank and rcorganizing the country's monetary system became law. The principal objectives of the Bank were declared to be (1) to maintain monetary stability, (2) to preserve the international value of the peso and convertibility into other freely convertible currencies, and (3) to promote production, employment, and real income. The Bank is authorized to engage in gold and foreign exchange operations and to lend to banks and the Government. It may also control bank reserve requirements and regulate bank credit operations.

The Central Bank Act brought to an end the rigid system whereby the peso was backed 100 percent by silver coins and United States dollars. While giving the Bank a monopoly of note issue, the Act did not establish any required ratio between the Bank's international reserves and its note and deposit liabilities. Nor was the bank required to hold its international reserves exclusively in dollars; gold and foreign currencies other than dollars may be included. The Act also provided that measures affecting Philippine currency shall be subject to international agreements to which the Republic is a party.

General Banking

The General Banking Act of July 24, 1948, revised banking legislation to render it consistent with the Central Bank Act. Investment in Government and Central Bank securities was encouraged by the legislation, and banks were given more latitude in lending activities. Under the law branches and agencies of foreign banks were not allowed to invest deposits "in any manner outside the territorial limits of the Republic of the Philippines." Domestic banks established in the future must be controlled by Filipinos, with foreign owership limited to a maximum of 40 percent and membership on boards of directors restricted to not more than one-third.

At the end of 1948, there were a savings and mortgage bank and 12 commercial banks in operation, including 5 branches or agencies of foreign banks. During the fiscal year which ended June 30, 1948, total bank resources rose from 866,500,000 pesos to the unprecedented amount of 1,148,700,000 pesos. Total deposit liabilities as of June 30, 1948, amounted to 881,600,000 pesos, an increase of 37.6 percent over the preceding fiscal year. Total exchange holdings of Philippine banks on June 30, 1948, aggregated 182,700,000 pesos, compared with a little over 142,000,000 pesos a year earlier. Letters of credit issued during the year aggregated 687,000,000 pesos, registering an increase of 67,000,000 pesos.

Prewar bank deposits.—In a precedent-setting decision rendered in April 1948, the Philippine Supreme Court held that wartime payments made to the Bank of Taiwan to liquidate obligations to banks of allied nationals were fully valid. The Court ruled that the Japanese military administration under international law had power to order liquidation of allied banks, the Japanese war notes were legal tender during Japanese occupation, having value at par with the Philippine peso, and that payments during the occupation to the Bank of Taiwan by debtors of allied banks satisfied their obligations to the allied banks to the full extent of such payments. It was also held that allied banks adversely affected could seek recourse from the Japanese Government for indemnity by virtue of validated wartime payments.

The ruling, which involved the claim of Haw Pia vs. China Banking Corporation, reversed a decision rendered in 1947 by the Manila Court of First Instance. It was expected that the Supreme Court verdict would be reconsidered, but no announcement was made in 1948.

Currency Circulation

In the calendar year 1948 currency and coin in circulation increased from 748,000,000 pesos on December 31, 1947, to 838,000,000 pesos at the close of 1948. These figures include estimated amounts destroyed (35,000,000 and 22,000,000 pesos on December 31, 1947 and 1948, respectively) and cash held as reserves in bank vaults.

Rehabilitation Finance Corporation

In the fiscal year which ended June 30, 1948, the RFC approved 7,135 loans with an aggregate value of 132,298,000 pesos, or an increase of threefold over the value of loans approved in the preceding year. The increase was financed in large part by drawings on cash of 40,000,000 pesos, by proceeds of surplus property sales amounting to 17,000,000 pesos, and by borrowings of 11,000,000 pesos. The Phillipine National Bank remained the principal buyer of the Corporation's bonds. Urban real estate financing accounted for more than half the total of approved loans. Industrial loans, chiefly to sugar centrals and the Cebu Portland Cement Company, aggregated 31,866,000 pesos, while agricultural loans totaled 18,269,000 pesos (mainly rice).

PRESENT POSITION OF MINING IN THE PHILIPPINES

(By CHAS. A. MITKE, Manila)

(Special to the Far Eastern Economic Review)

When the Philippines were liberated, the sympathy of the entire American people was aroused at the tremendous damage resulting from the invasion and occupation of the Islands by the Japanese. As a tangible evidence of this sympathy, they submitted to very high taxation, in order that, among other things, their Government might aid the Islands and its people. One particular thing in which they were most interested was that homes, schools, churches, public buildings, farms, and industries be rehabilitated. In order that this might be accomplished, a certain sum was set apart from other contributions for the express purpose of rehabilitation of war damage, and a Commission appointed to distribute same. This money was not to be considered as gifts to individuals or groups, to do what they willed with it. It was given for a specific purpose, viz., to rehabilitate a certain home or farm, or a certain project in a certain industry, and not to be converted to other uses.

One of the worst crippled industries in the Islands was mining, which before the war was practically a 100,000,000 peso industry and ranked second to sugar. The individual mines which comprised this industry, as a whole, suffered cruelly, and the aggregate claims presented to the War Damage Commission amounted to around 100,000,000 pesos. So far, nine producers have been rehabilitated but the remainder have not, and a majority of them never will.

Before the war, there were a number of properties brought into production during the boom period, which were able to operate under pre-war conditions and, in some cases, pay dividends. The margin, however, between profit and loss was slim, even in those days. A crippling war, followed by much higher labour costs, and higher costs of supplies, prevent these properties from opening up again. Most of them are gold producers, and they are now definitely sub-marginal.

The only stable market for gold is the United States, which pays a fixed price of $35.00 per ounce, and resolutely refuses to increase it. After all, there is no valid reason why it should pay more for a product which it declares it does not need, and buries in the ground the moment it is received. Black market prices have been as high as $50.00, and even higher in some countries. However, there is nothing stable about the black market, and China, which was the largest market for Philippine gold, is now uncertain, and may fade out entirely, leaving the United States the only large buyers. The sub-marginal properties definitely cannot operate on $35.00 an ounce gold, even if money were forth-coming to rehabilitate them.

The situation should be squarely faced that practically all the mines capable of rehabilitation have already been rehabilitated, partly with War Damage funds, and partly with money from outside and elsewhere. A great many people do not understand this, and cling to the belief that many more mines will resume production as soon as funds are available. This is not so.

The question at issue is, what is being done with the rehabilitation funds already received, by companies whose mines will never operate again? It would be folly to put this money back in the sub-marginal properties, but to what use is it being put at present?

The Philippine Rehabilitation Act of 1946 (Public Law 370 — 79th U.S. Congress) expressly states:—

"Sec. 104 (c) All of the provisions of this title shall be subject to the requirement that, to the fullest extent practicable, the Commission shall require that the lost or damaged property be rebuilt, replaced, or repaired before payments of money are actually made to claimants under this title.

"Sec 105 ...... PROVIDED, That if the Commission determines it is possible for any reason beyond the control of the claimant, or is impractical to rebuild, replace, or repair the lost or damaged property, the Commission may make payment to the claimants without making said requirement; PROVIDED, however, That, as a condition to the making of such payment the Commission shall require that the whole of such payment shall be reinvested in such manner as will further the rehabilitation or economic development of the Philippines;"

This does not indicate that such money might be invested in local securities; in surplus; in the buy-and-sell business; or other lines of endeavor. Plainly, the law expected as far as possible that damaged property would be reconstructed, and if this proved impossible, that the money be spent for the rehabilitation or economic development of the Philippines.

No industry needs rehabilitation more than the Mining Industry. That it deserves rehabilitation is proven by its pre-war performance, when, in a short seven-year-period (1934-1941), it grew from practically nothing to a 100,000,000 pesos industry and would have surpassed sugar in another year. Yet, absolutely nothing has been done to assist it, and many millions now being paid as compensation for money originally made in the industry and lost during the war, are reported to be invested elsewhere. Filemon Cosio, Securities and Exchange Commissioner, recently told members of the Manila Stock Exchange that about twelve mining companies had received war damage payments but that this money was not instrumental in the rehabilitation of the mines concerned. It was explained that either payment came too late to be of any use in the immediate restoration of the mines now in production or that it was too inadequate. The total payment received so far by mining companies was estimated at around 10,000,000 pesos. The question, therefore, of what is being done with this money came to the attention of the commission since the money belongs to several investors who are stockholders of the mining firms concerned. Commissioner Cosio said it was the commission's view that since this money could not be of much help in the rehabilitation of the mines, it probably was being invested somewhere else.

This money is a partial return of a speculative investment, which grew from a small beginning into a prosperous and paying mining enterprise, but which was destroyed by the Japanese during the war and which, owing to conditions beyond the control of the directors and stockholders, is now no longer a good risk. The argument has been advanced that for the protection of the stockholders, money refunded by the War Damage Commission for mines

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Public Finance

Expenditures and income of the general fund in the fiscal year which ended June 30, 1948, amounted to 307,400,000 pesos and 263,200,000 pesos, respectively. The deficit of 44,200,000 pesos was offset by a decline in cash from 65,400,000 pesos at the end of the fiscal year 1947 to 20,300,000 pesos at the close of fiscal 1948. Total expenditures in 1947-48 were smaller because of substantial nonrecurring outlays in 1947, chiefly the Government's subscription of 50,000,000 pesos to the capital stock of the Rehabilitation Finance Corporation. Ordinary expenditures, however, were larger in 1947-48 than in 1946-47. Total income was smaller because of the budgetary loan of 120,000,000 pesos received from the United States in 1947. Ordinary income alone, including tax receipts, increased.

The general Fund does not include gross receipts and expenditures of special funds and Government-owned enterprises. Receipts of more than 40 special funds amounted to 69,200,000 pesos in 1947-48, compared with 89,000,000 pesos in 1946-47; expenditures totaled 37,300,000 pesos compared with 33,100,000 pesos in the preceding fiscal year. A considerable proportion of such funds consisted of receipts from specific taxes on gasoline and oil and motor vehicle registrations and other fees, which were expended on public works. About 20 Government-owned enterprises reported receipts of 105,200,000 pesos and expenditures of 88,100,000 pesos for the fiscal year 1948, compared with receipts of 50,800,000 pesos and expenditures of 38,100,000 pesos in 1946-47.

In 1948 legislation was enacted which provided non-interest-bearing certificates of indebtedness, with a 10-year term, to Filipinos who were in the civil service during the war and who had claims for unpaid salaries and wages. Official estimates placed the total of such claims at 300,000,000 pesos.

that are no longer able to operate, should be put into gilt-edged investments. The basis of this argument is wrong. The original investments of which the War Damage payments are a partial return, were not gilt-edged ones in the first place. They were investments in mining prospects, which later developed into producing mines, and which are classified in every investment portfolio as "speculative".

Dividend paying propositions are not found in the jungle fully developed and ready to operate. Their beginnings are small, just as any great man commences life as a helpless infant. A promising outcrop is discovered somewhere in the hills. Preliminary work is prosecuted, and the outcrop uncovered sufficiently to justify further expenditure. Little by little, the prospect (if it is a meritorious one) develops, until it reaches the point where ore can be extracted. There are many stages in the development of a profitable mine, and speculative, or venture, capital is required to build it up to the dividend stage. War Damage payments for mines are therefore partial returns of such venture capital.

If the mines on which payments are being made no longer justify rehabilitation, then the logical thing to do with these funds is to invest them in other meritorious mining propositions, keep the money in the industry to which it belongs and in this manner, help rehabilitate the country, and comply with the conditions of the Rehabilitation Act.

In the States and elsewhere in mining countries, companies maintain what are known as "exploration departments". To the engineers in charge of these, come information regarding new mining discoveries, and their subordinates are continually examining, discarding, and recommending new finds in various parts of the country. Before the war, the larger companies in the Philippines also maintained exploration departments. Since the war, however, practically no attempt has been made to seek out or find new propositions of merit, in which the funds being received from the War Damage Commission for rehabilitation of mining properties might be invested.

It cannot be said that there are no such prospects worthy of merit in the Islands. Within the last six months, information has been continually coming in of rich discoveries in the South; along the West Coast; in the Visayan Islands; and elsewhere throughout the Philippines. All that these new finds need is Venture Capital to test them out in depth, and if they make, to open them up and equip them to become new producers. One newly discovered deposit alone has made a small shipment of 150 tons of ore running 400 ounces of silver and 62 per cent lead, with a gross value of 948 pesos per ton. A second shipment will follow shortly. Several other equally interesting discoveries, not quite so spectacular, have also been made.

Much has been said of the reluctance of foreign capital to invest in Philippines mining ventures, but when a number of our original mining operators are diverting mining funds to other purposes, what can we expect from foreign investors? The Mining Industry needs money now as never before. It needs Venture Capital, invested by people who have faith in the future of the country, but if even that portion of the original investments which is being returned by the War Damage Commission is being coursed into avenues of investment other than mining, what hope is there for rehabilitation of the industry?

How to rehabilitate the mining industry? One way is for the various mining companies to reorganize their former exploration departments and carry on a systematic search for new properties. If this were done, they would undoubtedly find many worthy of development. A certain proportion of their War Damage payments might then be channeled into the most promising of these, scattered throughout the Philippines. If this were done, there is very little doubt but that many of the "Mines of Tomorrow" would be converted into "Mines of Today".

Philippine Economic Developments in the First Half of 1949

During the first half of 1949 Philippine economy evidenced the same character, trends and limitations displayed since the end of war.

Agriculture and natural resources remained the predominant sources of wealth, but the expansion of industry, though active at the planning level, was limited in fact. Physical rehabilitation of war damage progressed under the support of both public and private funds. The value of import trade continued to exceed export values, and the heavy trade deficit was again outweighed by United States Government expenditures in the Philippines.

During the first 6 months, receipts of United States funds totaled about 320,000,000 pesos, a sum substantially greater than the trade deficit and approximately double expenditures by the national Government during the half-year period. Notwithstanding heavy receipts of dollars, the exchange position deteriorated and the balance of payments was unfavorable. Short-term assets of the Philippine Government, the Central Bank, and commercial banks declined by 147,000,000 pesos, and tax revenues fell short of Government outlays. Incomplete budget accounts for the fiscal year 1948-49 indicate a possible deficit of 14,000,000 pesos, or more, for the second consecutive year. The United States budgetary loan of 120,000,000 pesos made in 1948 appears to have been exhausted, and the Government faces the necessity of retrenchment of expenditures, increased taxation, or further borrowing.

The Central Bank, established early in January 1949, agreed to advance 115,000,000 pesos to the Government for partial repayment of the United States budgetary loan and for developmental projects, in accordance with the bank's legal authority to make direct advances to the Government from the Treasury Certificate Fund. The bank also has extended limited budgetary assistance from other funds.

Overseas-trade activities during the first half of 1949 declined, compared with the first 6 months last year. Official estimates indicate that imports this year were valued at 572,600,000 pesos, compared with 605,900,000 pesos for the corresponding period in 1948, or a drop of 5.5 per cent. Import values probably would have shown a greater decline had it not been for arrivals during the first quarter of 1949 of goods from the United States which had been delayed by the shipping strike.

The fall in export values was more pronounced, exports in the first half of this year amounting to 283,100,000 compared with 347,600,000 pesos in the first 6 months of 1948, or a decline of about 19 per cent. The heavy loss in export values was caused largely by the radical declines in price and movement of copra. The excess of imports over exports at the close of June 1949 amounted to 289,500,000 peso, about 12 per cent greater than the trade deficit a year earlier. Nearly all foreign trade in both directions was with the United States.

Through the operation of import restrictions and allocations the Government sought to reduce the heavy trade deficit and conserve dollar exchange. It is not possible at this time, however, to credit the decline in imports during the first 6 months of 1949 —amounting to approximately 33,500,000 pesos—entirely to import-control measures because of complex market influences, such as delayed arrivals of 1948 orders, some of which were placed in expectation of control and also a decline in orders for delivery in early 1949, because of market saturation in several lines, particularly in textiles.

The relatively heavy reductions in import quotas for a few items apparently were effected for purposes of protecting local industries, or for encouraging the substitution of domestic produce for similar foreign items. The reservation of 20 per cent of each reduced quota for allocation to new importers of Philippine nationality caused some criticism and in some instances resulted in the sale of quota allocation rights.

The 1948—49 rice crop of over 54,800,000 cavans of rough rice (about 2,400,000 metric tons) was probably a record high, but did not eliminate the need for rice imports during the first

half of 1949. Rice remained at nearly four times its pre-war price. Production of corn and Philippine varieties of root crops, vegetables, and fruits was adequate to meet demand, except in the case of citrus fruit.

Compared with the first half of 1948, substantial declines in demand and price lessened production and export of copra, as against definite increases in both production and export of coconut oil and desiccated coconut. Sugar and canned pineapple doubled in production and export. Balings of abaca declined heavily, although exports were sustained, and there was little change in either production or export of leaf tobacco. Mineral output and the production of forest products were higher, and the fish catch increased in size.

Factory output of cement, vegetable lard, margarine, and laundry soap, and probably footwear, was above the 1948 level, whereas the manufacture of textiles decreased. A small nail plant, a wood veneering plant, and a moderate-scale glass-bottle factory were opened during the period under review.

The reconstruction of roads, streets, bridges, ports, and harbors, as well as air-strips and public buildings, reached a high level of activity, primarily through the use of United States Government funds granted in payment of war-damage claims. Residential construction and the erection of warehouse, office, and store buildings from private funds and through loans from the Philippine Rehabilitation Finance Corporation slackened somewhat but were still substantial.

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Specific-Tax and Sales-Tax Rates

Laws enacted by the recently adjourned Philippine Congress, and later approved by the President, provided for revisions in internal revenue tax rates as follows:

The specific tax on skimmed milk, formerly 25 centavos per kilogram (2.2046 pounds) of gross weight, was eliminated by Republic Act 344, effective March 14, 1949. With the discontinuance of the specific tax, skimmed milk is now subject to the sales or compensating tax of 5 per cent.

The percentage or sales tax on musical instruments (other than phonographs, combination radio and phonograph sets, and phonograph records) was reduced from 15 per cent to 5 per cent by Republic Act 396, effective June 18, 1949. The act also provided for a reduction from 30 per cent to 5 per cent of the tax on dental gold, gold alloys, and other precious metals used for dental work, and fixed the tax on fountain pens selling for 15 pesos or less at 5 per cent. The rate for higher-priced fountain pens was established at 15 per cent, and the tax on medical and dental apparatus and equipment was lowered from 15 per cent to 5 per cent.

Cigarettes which are mechanically packed, or are more than 80 millimeters in length, are subject to a minimum specific tax of 4 pesos per 1,000, under Republic Act 419 approved and effective June 18, 1949.

Import Controls

No further changes in import-control regulations will be considered immediately by the Philippine Cabinet. In view of the increasingly adverse balance of trade indicated in the first half of 1949, more stringent controls have been recommended by the National Economic Council and by the Governor of the Central Bank. The recommendations included an increase in the number of items subject to import control and general reductions in existing quotas.

Preliminary estimates by the Secretary of Commerce indicate that a reduction of 141,300,000 pesos in imports during 1949 may be effected through operation of import controls.

Japan's Trade Problems

(By our Correspondent).

Trade Between Japan and Hongkong

The step taken by the Hongkong Government on Sept. 27 which suspended trading with Japan, as a result of Hongkong Government's indecision about the establishment of a new exchange rate for the US$ in the two-way Hongkong-Japan trade account, has been deplored in Japan and more outspoken businessmen have severely criticised the trade suspension. It appears that Hongkong merchants, whether or not interested in the trading propositions which Japan offers, are at a loss to understand this step by their government and strong objections have been heard which, it is hoped, will eventually lead to a much needed shake-up in the Government Department which deals with Japan trade affairs (Dept. of Supplies & Distribution). The whole system of control over trade with Japan, as exercised by the Hongkong Dept. of S & D, is obsolete under present changed world market conditions. The sooner it is relinquished and merchants can negotiate imports and exports without official restraint, often euphemistically called 'guidance', the better for business both in Japan and in Hongkong.

As a result of trade stifling controls in Hongkong the merchants of that Colony have found a very useful trading centre in the Portuguese colony or Macao; already some 5 million yards of cotton cloth were shipped from Japan to Macao and larger shipments are being negotiated. Hongkong is losing part of its entrepot business and Macao is gaining; that has been observed many times in the past when Hongkong trade controls proved unrealistic and had to be circumvented for the benefit of traders and consumers alike.

A Hongkong importer can buy goods in Japan only if he either obtains officially exchange from the Dept. of S & D or if he can purchase on the open market US$ in the SCAP-Hongkong trading account at a rate which is about 25 to 30 per cent higher than the free market rate for TT New York as quoted in Hongkong. Traders would of course like to buy goods in Japan and make payment by converting their HK$ into TT New York and transfer such funds to the account of the Japanese seller. This procedure is perfectly acceptable to SCAP but Hongkong Government refuses to issue import licences for Japanese goods unless payment is made from the two-way trading account kept in Tokyo in US$. Imports of Japanese goods into Macao are however possible without any licence requirement; merchants simply purchase free US$ in Hongkong and then secure the required goods in Japan, ship them, instead of to Hongkong, to Macao and re-export same to China and other Far Eastern countries. Most Hongkong imports from Japan were in the past reshipped to other countries, the British colony being a very small direct consumer having a population of less than 2 million and a relatively small manufacturing industry (which, for reasons of benefitting from Imperial Preferences in Empire markets, would generally not use Japanese raw materials or semi-finished goods).

The opportunity of importing Japanese goods into Macao, although via Hongkong (as Macao is a river not an ocean port), recommends itself to traders. With the gradual opening of direct Japan-China trade the importance of Hongkong, which it held during the last 2 years as a result of political and civil war conditions in China, is bound to recede.

Export Expansion

The figures showing Japan's trading position which have recently been made public are interesting as regards exports the volume of which irrefutably proves the prophesied slump in Japan's trade to be unsubstantiated. In fact Japan's export contracts with other countries for the first six months of this year totalled US$304 million whereas actual exports during the corresponding period of last year aggregated US$77 million and the total for the year came to US$258 million; import contracts amounted to $391 million. As was to be expected the U.S.A. was the principal buyer of Japanese goods during the first six months of the year taking 19.2% of the total exports. India totalled 17.4% followed by the United Kingdom, Hongkong and the Philippines. The United States was also responsible for over 50% of Japan's total imports during the half-year, followed by China, Australia and Egypt.

A new two-way trade agreement has now been concluded between the sterling area and Japan. Under this contract Japan will import $55 million worth of goods from the sterling areas especially the United Kingdom, Australia, New Zealand, India and Ceylon and will export $45 million worth of

goods. Wool, petroleum, rubber and iron ore will be supplied to Japan in return for Japanese textiles and steel products. Australian wool as well as hides and skins will figure in Japanese purchases from that country; nearly double the present amount of wool will be taken, in fact the only restriction on wool purchases by Japan will be the limit of funds allocated. Australia will take in return steel products, textiles, raw silk and rayon.

The Japanese Government is also negotiating the purchase of about 60,000 bales of raw cotton from the U.S.A. This purchase would be made under the raw cotton purchase scheme authorised by SCAP for the acquiring of some 500,000 bales of raw cotton for the year ending June, 1950.

Trade Representation

It was announced some time ago that a number of Japanese industrialists would be allowed visas to visit various countries for the purpose of investigating the possibilities of foreign markets. The scheme has now been developed and a number of Japanese business men are shortly leaving for the USA, Europe, S.E. Asia, and Africa. These visits are the forerunners of permanent overseas agencies of Japanese firms; such agencies, however, will not include shipping and insurance. At the same time regulations for private business men to enter Japan are being relaxed. These traders can now remain in Japan as long as their particular business requires and nothing more than an identification card is requisite to travel within the country. Foreign companies may send to Japan more than the two commercial representatives hitherto allowed.

Japanese Gold

While the Japanese gold industry has never been considered of very great importance—it almost entirely collapsed during the war years,—it has now been announced that a five year programme is to be instituted aimed at increasing production from its present level of four tons to ten tons annually.

Trade with Communist China

While General MacArthur's administration is adverse to any recognition of the Communist regime in China, it has been repeatedly stressed in trading circles that an understanding between Japan and Communist China is advisable. Though nothing official has been announced it is sufficiently clear that rapprochements are being tentatively initiated. The difficulties that attend any negotiations of this sort can be gleaned from the report that copper shipped a few months ago from Japan to Europe was being transhipped to Poland and Czechoslovakia. Copper being on the list of strategic war materials and exports of this nature to Russia and her satellite countries being banned by the U.S.A. such transhipments are not permitted. Whether this report can be substantiated is not clear. However certain business groups from China are now in Japan negotiating for the supply of railway equipment in exchange for coal, coking coal and iron ore of which Japan is in great need. Coal from North China would be considerably cheaper than that from other countries. Japan's coal production during the month of September totalled 3,209,600 tons. This was actually 2% above the monthly goal and according to the Japanese Government's Natural Resources Board stocks of coal now in Japan are sufficient to enable the Government to reduce imports of high quality coal from abroad and also to relax restrictions on the domestic use of gas.

Trade with Taiwan

An arrangement is being completed whereby Japan will supply Taiwan with drugs, marine products, cotton textiles and agricultural implements in exchange for bananas and sugar. The total business should amount to US$ 6 million. Taiwan is also desirous of increasing salt exports to Japan in sufficient quantities to fill the 500,000 tons salt contract concluded with that country by China a year ago. The occupation of the salt regions in North China by the Communists made the contract previously impossible of fulfilment.

Hongkong Stock & Share Market

There has been, at long last, some stronger buying interest displayed at last week's stock market sessions and prices have, with few exceptions, shown increases over the level of the preceding week. The gain which is revealed in the Ellis index amounts to 1.50 over the previous week (closing prices of the week being compared). The turnover was one of the highest recorded for 1949. It is however too early to draw any optimistic conclusions from the big buying demand of last week; the undertone is uncertain. Remarkable as was the insistent buying it must not be forgotten that there were eager sellers who met demand, on the whole, quite adequately. That shows that there are still many holders here who wish to get out of their share investment which they do not consider as either promising price appreciation or returning a yield commensurate with interest earnings from other disposition of idle funds in business or speculative counters. That sales last week were so unusually large would seem to disprove the widely held opinion that money is currently very tight; on the other hand it is understood in the market that some interests in the gold forward market have liquidated their positions and have, partly, re-employed their capital in local securities. It is not actually new money which has come into the share market but capital has been partly transferred from other financial markets for a variety of reasons, prominent among which was discouragement of continued high levels of returns in speculative counters rather than a conviction of the soundness of investment in shares.

Last week's highest & lowest prices of shares and turnover (sales):—

Stock	Highest	Lowest	Sales
H.K. Banks	$1480	$1410	380
Union Ins.	680	645	231
H.K. Fires	220	220	105
Wharves	104	103	362
Docks	18	17	3,860
Providents	11¾	11¾	1,669
H.K. Hotels	10½	10.4	5.900
H.K. Lands	52½	51	5,150
Realties	2.1	2.1	1,500
Trams	16¾	15¾	17,400
Electrics	32½	30	14,350
Lights: old	12½	10.8	19,222
„ new	9.6	8.8	26,459
Telephones	19¼	18	3,600
Cements	20	19	6,600
Dairy Farms	41½	38½	4,333
Watsons	44	41½	8,200
Ewos	5	4½	2,950
Wheelocks	27	25	1,300
Yangtszes	2.4	2.4	17,700
S'hai Gas	1½	1½	428
Raub Mines	5.65	5.60	7,000

Business of last week:—

Volume of Business:—Total sales reported for the five days of trading last week amounted to 147.591 shares of an approximate value of $3¼ million an increase of 2¼ million compared with the previous week.

Price Index:—The Felix Ellis averages based on the closing prices of twelve representative active local stocks closed at 125.94 showing a net gain of 1.50 compared with the close of the preceding week. Day-by-day averages were: October 17, 124.85; October 18, 124.77; October 19, 125.34; October 20, 126.05; October 21, 125.94.

	High	Low
1947	155.82	123.88
1948	148.68	134.05
1949	138.37	123.32

Business Done:—

Banks:—H.K. Banks @ 1410, 1420, 1430, 1475, 1480, 1475.

Insurance:—Union @ 650, 645, 660, 675, 680; H.K. Fires @ 220.

Docks, Wharves, Godowns, Etc.:—H.K. & K. Wharves @ 104, 103, 104: H.K. Docks @ 16¼, 17, 17¼, 17.40, 18, 17½: China Providents @ 11¼, 11¾; Wheelocks @ 25, 27, 28.

Mines:—Raubs @ 5.65.

Hotels and Lands:—H.K. & S. Hotels @ 10½, 10.40, 10½; Lands @ 52, 52½, 51½; Realities @ 2.10.

Utilities:—Hongkong Tramways @ 15¾, 16, 15¾, 16, 16¼, 16½, 16¾, 16½, 16.20, 16.10, 16.20; China Lights (O) @ 11.80, 11.90, 11.70, 11.60, 11.70, 11.80, 12, 12.20, 12½, 12.30, 12.20, 12.10; China Lights (N) @ 8.80, 8.90, 9, 8.90, 8.80, 8.70, 8.80, 8.90, 9, 9.10, 9.20, 9.40, 9½, 9.60, 9½, 9.30, 9.40, 9.10, 9.20, 9.10, 9; Hongkong Electrics @ 29½, 30, 30½, 30¼, 30, 30½, 30, 30½ 30, 30½, 31, 31¾, 31½, 32, 32½, 32, 31½; Telephones 18, 18½, 19, 19¼, 19, 19¼; Shanghai Gas @ 1½.

Industrials:—Cements @ 18, 19½, 19, 20; Ropes @ 14¼, 15.

Stores:—Dairy Farm, 38½, 39½, 39¾, 39¼, 39½, 39, 39½, 41, 41¼; Watsons @ 41½, 42, 42½, 42, 42½, 43, 44, 43; Kwong Sang Hong @ 98.

Miscellaneous:—Yangtszes @ 2.30.

Cottons:—Ewos @ 4½, 5, 5¼.

EXCHANGE & FINANCIAL MARKETS

Sterling Devaluation and New Exchange Rates

The change in the exchange rate between sterling and the U.S. dollar on 18th September has had world-wide repercussions.

(a) Dollar Countries: — The former exchange rate between sterling and the U.S. dollar was $4.03 to £1, and the new rate of $2.80 to £1 represents a decrease of 30.5% in the price of sterling. Canada subsequently lowered her dollar by 9% against the U.S. dollar, so that the rate between sterling and the Canadian dollar is now $(Canadian) 3.08 to £1, a decrease of 23.5% in the price of sterling.

(b) Marshall Plan Countries:—

(i) The following Marshall Plan countries have lowered the exchange rate for their currencies to the same extent as the U.K. and consequently the exchange rates between their currencies and sterling are the same as before:

Denmark, Netherlands* (and Netherlands East Indies*), Norway and Sweden. (* A decrease of less than 0.5% in the local price of sterling).

(ii) Secondly, there are the Marshall Plan countries which have lowered their dollar exchange rates for their currencies, but not to the full 30.5% of the U.K. Therefore the local price of sterling in their countries has decreased:—

Country	Currency Unit	Old Rate per £	New Rate per £	Decrease in local price of £
France	franc	1,097	980	10.7%
Belgium	Belgian franc	176.6	140	20.7%
Portugal	escudo	100.75	80.5	20.1%
Italy	lira	2,317	1,776.9	23.3%

(iii) Thirdly, there are Switzerland, Austria and Turkey which have not altered their dollar exchange rates. The local price of sterling in these countries has therefore decreased by 30.5%.

(iv) Fourthly, Greece has devalued her currency against the dollar by 33%, and at the same time has taken the opportunity of putting the sterling-dollar cross rate right with the result that here has been in increase in the local price of sterling of 31%.

(c) Eastern Europe: None of the Communist countries of Eastern Europe has followed sterling. Finland has, and the exchange rate between sterling and the Finnish mark is the same as before.

(d) Latin America:—Argentina has introduced a new complex of exchange rate, but has not followed sterling in the exchange rate for exports of meat and other important products, with the result that this rate is now 9.40 pesos per £ compared with 13.53 — a decrease of 30.5%.

Brazil, Peru and Venezuela have not followed sterling and consequently there have been decreases of the order of 30.5% in the price of sterling in their currencies.

(e) Sterling Area:—All the independent Commonwealth countries in the Sterling Area except Pakistan have followed the U.K. Pakistan has made no alteration in the exchange rate between the U.S. dollar and the Pakistan rupee, and consequently the local price of sterling has decreased by the full 30.5%.

All the British Colonies, except British Honduras, have followed sterling. British Honduras, being on the mainland of Central America, is in a special position and the exchange rate between the British Honduras dollar and the U.S. dollar has not been changed.

Hongkong Official Exchange Rates

In force as from October 18, 1949

AGREED MERCHANT RATES OF H.K. EXCHANGE BANKS ASSOCIATION

	Maximum Selling	Minimum Buying
Sterling	1/2 7/8	1/2 31/32 T.T. 1/3 O.D. 1/3 1/32 30 d/s 1/3 1/16 60—90 d/s 1/3 3/32 120 d/s
Sterling (East & South Africa)	1/2 7/8	1/3 1/16 O.D. if under L/Credit 1/3 1/8 O.D. without L/Credit 1/32nd up every 30 d/s
Sterling (West Africa & West Indies)	1/2 7/8	1/3 1/4 O.D. if under L/Credit 1/3 5/16 O.D. without L/Credit 1/3nd up every 30 d/s
Rupees (India)	82 9/16	83 9/16 T.T. 84 13/16 O.D. 83 15/16 7 & 30 d/s 84 1/16 60 d/s 84 3/16 90 d/s
Rupees (Pakistan)	57 1/4	57 15/16 T.T. 58 O.D. 58 1/6 30 & 60 d/s
Rupees (Rangoon)	82 9/16	All buying rates 3/16th higher than India.
Rupees (Aden)	82 9/16	84 3/16 O.D. if under L/Credit 84 5/16 O.D. without L/Credit 84 13/16 30 d/s & 60 d/s
Malayan dollar	52 15/16	53 7/16 T.T. & O.D. 53 9/16 30 and 60 d/s
U. S. $	17 5/16	17 1/2 T.T. & O.D. 17 9/16 30 d/s 17 5/8 60—90 d/s
Canadian $	19	19 1/4 T.T. or O.D.
Australia	1/6 7/16	1/6 13/16 T.T. 1/6 7/8 O/D
New Zealand	1/2 7/8	1/3 1/8 T.T. 1/3 3/16 O.D.

All the non-Commonwealth countries in the Sterling Area — Burma, Irish Republic, Iceland and Iraq—have followed sterling.

(f) Other Countries:—Among other countries Egypt and Israel have followed sterling.

* * *

Official Exchange Rates

Exchange Association Banks rates were lowered as from Oct. 18 as follows:—sterling selling from 1/2-15/16 to 1/2-7/8 (HK$ 16.0669 previously to HK$ 16.1344 per £), sterling buying TT from 1/3-1/32 to 1/2-31/32 (HK$ 16.0334), and DD from 1/3-1/16 to 1/3 (HK$ 16 per £). The exchange rate has been lowered by about 0.4%. Other official rates were proportionately lowered.

Official US$ rates as from Oct. 18 are as follows:—selling US$ 17-5/16 per HK$ 100 (HK$ 577.61 per US$ 100), buying TT and DD 17½ (HK$ 571.42). The official mean rate is HK$ 574.515 which is against the official parity (HK$ 571.4285 at a London/New York cross of 2.80) higher by 0.54%.

Unofficial Exchange Rates

Bank note rates, highest & lowest, for last week in HK$:—piastres forward and spot 11.90, Nica guilders 25.20—23.50, baht 27 (per 100 currency units); Bank of England note 15.60—15.50 (in New York price dropped to 2.59, highest having been 2.66), Australian pound 12.80—12, Canadian dollar 5.27—5.16, Indian rupee 1.18—1.17, Burmese rupee .74—.70, Ceylonese rupee 1—.98, Malayan dollar 1.83¾—1.83¼, Philippine peso 2.95—2.88.

US$ Market

Highest & lowest rates of last week on the free market, in HK$:—notes 617—598¾, DD 618—603, TT 620—605, equalling crossrates at the parity of 1/3d. of US$2.58—2.644.

The local free market rates of last week were higher than the parity (HK$571.4285) by 5.87% to 8½%. The local sterling/US$ crossrates were lower than the official crossrate (US$ 2.80) by 5.57% to 7.85%.

Overseas area account sterling transactions were generally done at better rates than in the previous week and some Western European deals were crossed at about 2.68. As a result of levelling off in differences between the local and overseas unofficial crossrates there was a decline in the inward sterling remittances reported by local banks (arbitrageurs moving only small amounts from London to Hongkong as no profits could be realised under present even crossrates). New official rates reflected the change in the movement of funds from elsewhere in the sterling area into Hongkong; the previous excess of sterling inward remittances over outward transfers has recently declined but the excess continues nevertheless.

Sales in the free market (excluding inter-merchant business) totalled US$ 2,350,000 (TT 1.1 m., and DD and notes 1¼ m.). Larger buyers were Chinese flight capitalists, usually with KMT affiliations, and bullion dealers who covered their TT New York requirements arising from gold exports to certain Far Eastern countries, via Macao or other ports in this part of the world. Merchant demand was small as the heavy inventories preclude large-scale imports for some time to come. Overseas Chinese remittances were on the usual average level. It must be expected in the course of the next few months that more so-called Chinese family remittances will be channelled through official and private banks in China as a result of realistic exchange rates being maintained by the financial authorities in Shanghai and Tientsin.

Gold Markets

Highest & lowest rates of last week per trading weight (hongping) tael of .945 fine $334½—313, corresponding to .99 fine prices of $350.43—327.90 (while actual business, mostly for export, was done at $351—328). The equivalent highest & lowest prices per .99 fine oz troy were $291.22—272.50. Crossrates per oz US$47, high, and 45, low.

Prices abroad are weak as no sizeable demand is reducing stocks in private hands and in the vaults of certain South American governments. The local price is therefore bound to recede further. If one fine oz is offered in New York at, say, US$43 the Hongkong market price (at last week's average free TT New York rate of HK$ 612½) should be HK$263.37 per fine oz, or $316.91 per fine 'hongping' tael, or $299.48 per 'hongping' tael of .945 fineness.

Canton's gold market was very active due to many conversions from HK$ into gold. It is realised that HK currency will only be allowed by the new government to circulate for a short period during which the official conversion of HK$ into the PB$ will, at an as yet undecreed rate, be proceeded with. Many HK$ holders have last week overpaid gold as the new regime allows elsewhere in China the possession of gold but proscribes the possession of foreign currency by private citizens. Under these circumstances it is felt by many Cantonese that rather than wait for the compulsory conversion from HK$ into PB$ at, probably, a not very favourable rate (that is to say, not favourable for private holders of HK$) it is advisable to change over into gold although last week's rates were generally regarded as excessive. Market rates were HK$ 400, highest, $354, lowest, per .99 fine tael.

The change over interest declined last week which is a development long anticipated by the market. At present the return on capital employed in the forward gold market for the sole reason of earning the daily change over interest is running at about 16 to 17% p.a. while the average yield in Sept. was over 30% and during recent months the yield was calculated at even 45% p.a. A further slump in the daily interest is taken for granted and daily rates of 5 to 10 cents per tael may, at best, become the routine; if prices slump below $300 per .945 fine tael the interest may dwindle to nothing and eventually turn in favour of buyers (during recent months it always has favoured sellers).

Trading Reports of Last Week:—Monday, October 17:—Opening and closing rates $315½—318¾. On the fictitious forward market the change over favoured sellers at the interest rate of 10 cents per tael of .945 fine per day. Throughout the week, the change over rates continued in favour of sellers. Lowest of the week, 313, was recorded, but with smaller interest speculators were inclined to buy. Tuesday, Oct. 18:—Opening and closing 317—322½. Change over 19 cents. Better prices in Canton stimulated the market. Wednesday, Oct. 19:—Opening and closing 322½—318⅜. Change over 48 cents. Speculators continued buying but were checked by the heavy change over interest. Thursday, Oct. 20:—Opening and closing 318—327¼. Change over 9 cents. Sudden rise in Canton induced heavy buying here. Friday, Oct. 21:—Opening and closing 328½—327⅝. Change over 10 cents. Demands for exports and bear covering pushed the rate to the highest of the week 334½, but attracted also profit-taking sales. Saturday. Oct. 22:—Opening and closing 328¼—324. Change over 14 cents. Prices in Canton turned easy and with news of cheaply contracted gold obtained abroad, market was weaking. In the afternoon, unofficial business done at 322½.

Official tradings during the week totalled over 285,000 taels and with 12,000 taels transacted unofficially, the daily average was about 49,500 taels. Positions left open estimated at an average of 215,000 taels per day. Interest hedging forward operators, gold importers, local and Swatow operators oversold; Shanghai and Canton operators overbought.

HONGKONG OPEN MARKET RATES
per US$100

October	Notes High	Notes Low	Drafts High	Drafts Low	T.T. High	T.T. Low
17	6.10½	6.00	6.05	6.03	6.07	6.05
18	6.07	5.98¾	6.05	6.03	6.08	6.05½
19	6.07¼	5.99	6.05¼	6.03½	6.08	6.06
20	6.08	6.02	6.10	6.05½	6.13¼	6.08
21	6.17	6.04½	6.18	6.09	6.20	6.12
22	6.13	6.05½	6.16	6.10	6.19	6.13½

Cash Bars turned over totalled 51,000 taels, officially 32,320 taels and unofficially 18,500 taels.

During the week under review practically no import was reported; over 11,000 taels were exported, of which 5,000 taels to India, 3,500 taels to Bangkok, and 2,500 taels to Singapore.

Ready delivery stocks were reduced to about 340,000 taels. Local ornamental consumption was about 4,000 taels. Over 36,000 taels changed hands by interest hedging forward operators.

Silver Markets

During the week under review, the highest and lowest prices of bar silver were $4.50—4.40 per hongping tael; Hongkong and other dollar coins 2.72—2.70 per coin, Chinese dollar coins 2.92—2.85 per coin, and twenty-cents coins 2.45—2.35 per five coins. Imports and exports were nil. Very small business has been put through as communications with South China were cut. Over the counter business of money changers with travellers was reduced to practically nil.

In Canton, the public sold Hongkong currency for silver coins, thus raising the pre-liberation rate of HK$2.50 to 3.50 per coin. The official rate was HK$4 per one silver dollar as announced by the People's Government in Canton.

Chinese Exchange Markets

Remittances with Shanghai in terms of gold were dropping from the highest of 900 to the lowest of 775 in Hongkong for 1000 in Shanghai towards the end of last week, while those of US$ notes were increased from the lowest of 895 to the highest of 925. These peculiar differences were caused mainly by the dropping of gold —US$ cross rate in Shanghai to only US$40 per ounce while scarcity of US notes met with many offers of gold. It also proved easier for smugglers to bring US notes to the Colony rather than gold bars. The People's Government in Shanghai and Tientsin ordered the termination of the barter system for import and export on Oct. 21 and exporters will have now to surrender all foreign exchange. Since the People's Bank quoted an official cross rate of HK$7 per US$1 merchants bought US$ notes in preparation for surrender of export proceeds. Rates for gold and US$ remittances continued in favour of the Colony not because of the flight of capital which still exists, but as a result of the increase of trade, with trade balances in Hongkong's favour. Volume of business during the week under review showed increases; total business done 5,500 taels of gold and US$75,000.

Remittances with Canton in terms of Hongkong currency dropped from the highest of 995 to 940 in Hongkong for 1000 in Canton towards the latter part of the week. The lowest rate of 900 was later put through with merchants. This sudden rate drop in favour of the Colony was mainly due to the stepped up flight of capital which was impeded by the suspension of communications. Higher black market prices of gold ruled in Canton about 10 to 15 per cent above Hongkong. Lower official rates were quoted for Hongkong dollars, (PB$ 500 in in Canton, while PB$645 in Shanghai). Total sales: HK$ 1 million.

The situation in Amoy and Swatow was not settled yet and therefore rates were not quoted. If exchange begins again and quotes in terms of US$ and Hongkong currency, the same big difference in favour of the Colony as seen in the case of Canton is to be expected.

Silver certificates of the Central Bank of China: Chungking issues quoted about 70 per cent of the value of the hard coins; Canton issues only 30 per cent. Central Bank in Chungking redeemed the rate of silver dollar 110 to an ounce of gold.

Macao Pataca

The official Macao-Hongkong rate prior to £ devaluation was at par, one pataca quoted HK$ 1. On the open market however HK$ was, in consequence of the discount which sterling suffered on the Lisbon free exchange market and the pataca manipulation by a small syndicate in Macao in connection with gold imports, usually quoted at a 20 to 25% discount, i.e. 75 to 80 patacas per HK$ 100.

After sterling devaluation Portugal also devalued the escudo in terms of US$ but not to the full extent as did Britain and as a result £ was officially devalued against the escudo by 20.1%. The new official Hongkong/Macao rate was consequently reduced by the same percentage, i.e. about 80 patacas equal HK$ 100. The open market has however reacted in a quite different way, it has appreciated HK$ and advanced the Hongkong rate by over 10% over the official Hongkong/Macao parity. Last week 88 to 90 patacas bought HK$ 100 (about HK$ 112 per 100 Macao currency.)

This development reflects political uncertainty in Macao which has now become next-door neighbour of 'red' China. Portugal's government is pledged to an anti-Communist course and this policy is liable to invite trouble with the new People's Govt of China. Another reason for the higher demand in Macao for HK$—which caused the HK$ rate appreciation—is the return of Macao money from neighbouring Chinese districts (especially Chungshan) to the Portuguese colony as the new Chinese authorities are not expected to permit the possession of foreign currencies after a period of grace has expired.

Another reason for the present surplus circulation of Macao money and its subsequent conversion into HK$ is derived from the fact that the pataca cornering syndicate of gold dealers and importers in Macao is releasing part of these funds, there being no longer much profit in gold imports and therefore the 'freezing' of a large amount of Macao money by this syndicate has become purposeless.

Hongkong Industrial Reports

Factory Registrations

During September as many as 78 applications (18 on the Island and 60 in Kowloon and the New Territories) for registration of factories and workshops in the Colony were received by the Hongkong Labour Department; 5 applications were refused (1 on the Island and 4 in Kowloon & N.T.), 32 registration certificates were cancelled (9 and 23), and 37 registration certificate were issued (11 and 26).

From January to the end of September of this year 320 applications for registration have been received (127 and 193), 29 applications were refused (7 and 22), 156 registration certificates were cancelled (36 and 120), and a total of 165 registration certificates was issued.

The number of factories and workshops registered in the Colony as at September 30 was 959 (263 on the Island and 696 in Kowloon and N.T.); the number of applications under consideration was 259 (110 and 149).

The 78 applications for registration comprised the following: 5 printing (4 on the Island 1 in Kowloon) 4 bean curd (2 and 2), 11 metal wares (2 and 9), 2 soap (1 and 1), 2 flour and rice mills (1 and 1), on the Island 2 each confectionery & laundry, 1 each lard, lamp mantles, camphor wood chests, telephone repairs; in Kowloon & N.T. 7 knitting mills, 6 engineering, 3 each cotton weaving, electro plating, saw mille, 2 each bakery, dyeing, enamel wares, plastic wares, 1 each quarry, preserved fruit, noodles, ice cream, tobacco, cotton mill, silk weaving, wool yarn, shoes, mats, furniture, chemicals, perfumery, torches, pencils, buttons.

Woollen Yarn Industry

An interesting new development in Hongkong's industrial set-up is the establishment of two woollen yarn mills in the New Territories. One which is in Castle Peak Road has now started work and about 200 persons should be employed when it is working to capacity.

The Match Industry

The situation in so far as the match industry is concerned, has been very satisfactory for some time past and it is anticipated that the local factories will be working to full capacity for some months ahead. This is due to increased demands from abroad and at the moment some 3,000 cases are being turned out each month although this amount falls short of the demand. Manila, Netherlands East Indies, Malaya, Thailand as well as Australia,

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In trade and financial transactions of Macao with Hongkong and China the pataca never came into the picture, it had only strictly local importance and even there it was and continues to be overshadowed by the HK$ which circulates in Macao and remains the principal medium of exchange for all commercial transactions.

TRADE OF HONGKONG

HONGKONG IMPORTS & EXPORTS OF MERCHANDISE FOR THE FIRST NINE MONTHS OF 1947, 1948 AND 1949

(in thousands of Hongkong dollars)

Month	1947 Imports	1947 Exports	1947 Import excess	1947 Import excess %	1948 Imports	1948 Exports	1948 Import excess	1948 Import excess %	1949 Imports	1949 Exports	1949 Export excess	1949 Export excess %
Jan.	105,406	102,591	2,815	2.74	140,755	113,316	27,439	24.21	159,336	171,811	12,475	7.83
											Import excess	Import excess %
Feb	82,557	70,993	11,564	16.29	131,243	92,286	38,957	41.13	161,595	135,454	26,141	19.30
March	113,104	95,795	17,309	18.07	170,562	115,037	55,525	48.27	221,714	177,073	44,641	25.21
April	103,545	89,635	13,910	15.52	188,888	138,312	50,576	36.56	160,449	114,826	45,623	39.73
May	124,015	99,905	24,110	24.13	176,735	133,028	43,707	32.85	320,532	219,287	101,245	46.17
June	130,474	100,427	30,002	29.86	173,787	106,118	67,669	63.77	208,180	164,069	44,111	26.89
July	142,562	102,840	39,722	38.63	167,050	135,887	31,163	22.93	191,355	194,991	Export excess 3,636	Export excess 1.90
August	119,794	72.377	47,417	65.51	153,531	123,696	29,835	24.12	229,281	195,192	Import excess 34.089	Import excess 17.46
September	133,133	118,244	12,880	12.59	130,150	148,291	Export excess 18,141	Export excess 13.94	267,027	224,947	42,180	18.76
First Nine Months	1,054,590	851,852	202,738	23.80	1,431,703	1,105,972	325,731	29.45	1,917,310	1,597,551	319,759	20.01
Monthly Averages	117,176	94,650	22,526	23.80	159,078	122,885	36,192	29.45	213,034	177,505	35,528	20.01

The monthly averages for the years 1947 and 1948 were as follows: 1947: Imports $129,161; Exports $101,402. 1948: Imports $173,128; Exports $131,895.

Hongkong's Trade in September

The community has by now become used to the fact that trade figures this year are almost continually rising and that there is no sign for any recession in imports or exports. Comparisons with the very good postwar years of 1947 and 1948 show always large increases this year over the corresponding months of the two preceding years.

Significant is the ever rising volume of export cargo and value of export goods leaving Hongkong for Far Eastern, European and American destinations; and it appears that every few months a new export record is being established.

Those merchants who keep on complaining that their business has become less profitable or even profess that they have incurred losses must have been in trade for a relatively short time and may be regarded as sub-marginal commercial entrepreneurs whose ability to compete in the ever tightening buyers' market with its accompanying feature of severe clipping of profit margins is inadequate to meet the 'emergency', i.e. the general normalisation of world trade after

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New Zealand, India, Pakistan and many more have been sending orders.

The question of cost arose following devaluation but apparently this point is not urgent at the moment as manufacturers are sufficiently well stocked to meet demand, at least for two months. About fifty per cent of the raw material comes from sterling areas so that it is not yet known how far prices will eventually be affected. Meanwhile something resembling a small boom is existing in the match factories, with mills occupied not only with new orders but also working to catch up with outstanding deliveries.

Export of Manufactured Commodities

Hongkong's export of manufactured goods during September showed an increase over the August figures although some changes were noticeable in the order of value. For instance, cotton piece goods, which have been the leading export commodity of locally manufactured goods fell to second place during the month, enamel wares standing first. The figures for the month amounted to $6,120,251 as against $6,528,092 for August.

Malaya maintained the leading position taking a total of $952,305 although this was rather less than in August when it totalled $1,250,985; the principal import into Malaya was cotton piece goods of 876,753 yards valued at $859,370. South Africa came second on the list of importers with $660,647 as against the August figure of $447,390.

As however noted, enamelware superseded cotton piece goods during the month 203,292 dozens being exported at a value of $1,133,818, while cotton piece goods totalled 1,083,365 yards at a value of $1,126,899; rubber shoes came third with 270,059 pairs at $714,615. Matches also improved as much as 150% for the month at a value of $353,210 as compared with $140,420 for August.

The itemised figures are as follows for September exports:—

Enamelware: South Africa bought to the value of $435,238, East Africa bought $328,333, Portuguese East Africa $120,663 and British West Africa $138,024. Cotton piece goods, Malaya took 876,753 yards at $859,370, Britain 14,652 yards at $24,304, West Africa 11,180 yards at $21,525, West Indies 9,280 yards at $15,732 and British East Africa 5,000 yards at $9,250. Rubber shoes, Britain took 55,892 pairs at $217,410, West Indies 98,886 pairs at $210,992 and Burma 16.225 pairs at $102,607. Matches, Pakistan and Burma took the whole to the total cost of $231,620. Flashlights (torch cases) Ceylon took 4,867 dozens to a total of $156,956.

Vacuum Flasks

The vacuum flask industry has been given an upward lift by an order from abroad for 150,000 flasks for military requirements; the price is still under negotiation. At the end of June there were 3 vacuum flask factories in Hongkong, employing 285 workers (182 male and 103 female).

the dislocations and disruptions of world war II.

Trade comparisons of September 1949 with last August and the months of September of the two preceding years show the great advance in local entrepot business:—

Increases in percentage of September 1949 over:—

September	1947	Imports	100.57	Exports	90.15
,,	1948	,,	105.17	,,	51.62
August	1949	,,	16.46	,,	15.19

Imports during September greatly exceeded those of the corresponding months of 1947 and 1948 and were the second highest in Hongkong's history, limping only behind the record of last May when imports valued $320.5 m. which was, to some extent, due to the influx of 'refugee' cargo from North and Central China (including such cargo which was redirected by owners either already en route or in the state of being loaded abroad.) Exports in September were the largest on record, exceeding the previous record established in May ($219.2 m.).

Comparisons of highest and lowest import and export figures of the years 1947 and 1948 and of the first nine months of 1949 (in millions of HK$):—

	Year 1947	Year 1948	First three quarters 1949
IMPORTS			
high	176.9 Dec.	258.2 Dec.	320.5 May
low	82.5 Feb.	130.1 Sept.	159.3 Jan.
EXPORTS			
high	125.0 Dec.	184.7 Dec.	224.8 Sept.
low	70.9 Feb.	92.2 Feb.	114.8 April

Hongkong's Trade for the first three quarters

Comparisons of the total trade of the first nine months of 1949 with the same period of the two preceding years show the very considerable expansion of trade of the Colony in the current year.

Increase in percentage of this year's imports and exports over the first nine months of 1947 and 1948:—

	Imports	Exports
1947	81.81	87.54
1948	33.92	44.45

The total trade for the first nine months of 1947 amounted to $1906.4 million or £119.1 million; for the first nine months of 1948: $2537.6 m. or £158.6 m.; and for the first nine months of 1949: $3514.8 m. or £219.6 m. (Conversion from HK$ into £ at the fixed exchange parity of 1s. 3d. to the local dollar).

In terms of sterling, the total trade of the Colony this year advanced over the total trade of 1947 by 83.93%, and over 1948 by 38.12%. Comparisons of the trade of Hongkong in 1949 with prewar trade show that the current level of imports and exports is approximately the same as recorded in the period 1931-1937. Imports and exports of Hongkong for the first three quarters of the years 1931-1937 were as follows (in millions of sterling, as converted from HK$ into £ at the average annual rates of exchange *):—

*) Average annual exchange rates of HK$:—1931 = 1s. 0¾d., 1932 = 1/3¾; 1933 = 1/4¼; 1934 = 1/6-3/16; 1935 = 1/11-5/16; 1936 = 1/3-3/16; 1937 = 1/2-13/16.

Hongkong's Trade in September and for the first Nine Months of 1949

Imports of merchandise into Hongkong during September, 1948 amounted to a declared value $267,026,963 as compared with $130,150,021 in the month of September, 1948. The figures include Government sponsored cargoes. Exports of merchandise totalled a declared value of $224,847,623 as compared with $148,290,829 in September, 1948.

Imports during the first nine months of 1949 amounted to a declared value of $1,917.310,271 as compared with $1,431,703,752 in the first nine months of 1948. Exports totalled $1,597,551,160 as compared with $1,105,972,799.

HONGKONG'S TRADE IN SEPTEMBER

Total Values of Imports & Exports of Merchandise by Countries

Countries	IMPORTS FROM September 1948	IMPORTS FROM September 1949	EXPORTS TO September 1948	EXPORTS TO September 1949
	$	$	$	$
United Kingdom	15,413,620	33,608,451	7,700,447	11,140,176
Australia	811,880	5,365,569	2,573,308	3,525,336
Canada	1,793,950	5,774,122	901,901	1,227,085
Ceylon	44,022	114,284	682,430	264,011
East Africa	37,756	204,012	1,086,013	541,739
India	7,581,824	8,627,146	4,567,559	3,227,397
Malaya	3,246,410	17,992,898	17,623,729	26,309,829
New Zealand	—	80,280	193,607	369,152
North Borneo	181,182	1,116,317	865,281	332,574
South Africa	129,627	2,250,863	822,510	522,844
West Africa	525	—	423,487	490,432
West Indies	—	5,498	1,252,682	583,118
Br. Empire Other	63,734	7,704,559	988,220	845,858
Belgium	571,462	1,805,992	666,145	653,876
Burma	202,260	106,887	524,349	1,342,523
China, North	3,697,579	16,595,630	14,360,352	30,202,446
,, Middle	2,130,524	8,406,737	6,009,068	18,185,450
,, South	21,949,456	25,849,942	11,571,700	24,627,000
Cuba	—	—	99,949	163,225
Central America	192,507	365,474	314,876	495,702
Denmark	186,672	285,409	116,681	493,264
Egypt	—	454,633	214,639	370,469
France	1,099,083	3,441,100	578,125	565,683
Fr. Indochina	6,427,456	2,100,917	1,568,715	1,274,563
Germany	302,117	567,434	40,500	569,934
Holland	1,149,336	4,998,454	162,193	739,917
Italy	3,790,411	4,035,581	706,802	174,462
Japan	3,779,889	6,008,778	3,719,299	5,948,762
Korea, South	5,895,386	3,809,300	7,568,209	7,756,330
,, North	—	8,859,152	—	2,095,631
Macao	5,324,323	4,859,174	12,502,632	35,069,537
Norway	1,720,581	3,032,440	559,498	57,778
Neth. East Indies	3,594,571	4,675,038	4,912,494	2,795,746
Philippines	560,082	1,079,472	10,306,796	7,871,923
Portugal	46,413	94,614	—	6,052
Siam	3,405,257	9,234,228	15,648,233	7,485,160
South America	—	491,922	757,652	431,599
Sweden	1,743,655	1,334,877	198,159	166,326
Switzerland	2,077,842	5,320,613	191,301	133,111
Spain	86,747	18,490	—	—
U. S. A.	25,468,355	51,283,291	10,042,765	23,034,952
U. S. S. R.	—	1,410,001	2,133,938	—
Austria	44,100	519,132	—	—
Eire	—	—	—	30,926
Czechoslovakia	75,498	1,468,211	—	—
El hasa	—	—	355,862	55,652
Finland	335,493	171,994	530	—
Greece	—	—	3,296	19,250
Hungary	—	319,191	—	—
Iran	1,575,642	1,300	20,523	19,162
Iraq	—	—	1,433,219	16,144
Oman	—	33,900	348,584	177,591
Poland	596,723	599,763	—	—
Port. East Africa	84,651	19,872	353,181	328,486
Pakistan	—	7,590,595	—	639,695
Syria	—	—	120,296	135,894
Turkey	—	240,000	45,080	63,483
Others	2,731,420	2,693,425	453,654	770,363
TOTAL	130,150,021	267,026,963	148,290,829	224,847,623
Total Br. Empire	29,304,530	82,843,999	39,680,634	49,879,551
Total Foreign	100,845,491	184,182,964	108,610,195	174,968,072

Year	Imports	Exports	Total
1931	26.7	19.7	46.4
1932	31.4	23.1	54.5
1933	25.5	20.6	46.1
1934	22.3	17.6	39.9
1935	27.8	20.4	48.2
1936	20.3	15.6	35.9
1937	28.1	20.5	48.6
	182.1	137.5	319.6

For the period Jan. to Sept. 1949 Hongkong's imports valued £119.8 m., exports £99.8 m. a total of £219.6 m. In the seven years' prewar period the annual average (for the first three quarters) for imports was £26 m., for exports £19.6 m., a total of £45.6 m.

Accordingly, the increase in Hongkong's trade this year as against the seven years' prewar average would amount to 360.8% in imports, 409.2% in exports, and 381.6% in total trade. However, the rise of prices must be considered before arriving at conclusions; in the postwar period the purchasing power of the local dollar (which is sterling) has been greatly reduced, that is to say, there was a heavy depreciation of the HK$ in terms of commodities and services. No reliable statistics exist with regard to the rise in the cost of living in this Colony after the end of world war II compared to the price levels of prewar years, however, unofficial estimates put the purchasing power of the HK$ in the years 1948/49 at a fraction of what it was before the war. It is estimated that in pre-war years (i.e. prior to 1940) 18 to 20 Hongkong cents bought goods and services which now would cost $1. In other words, the rise in cost of living from pre- to post-war amounts to 400 to 450%.

In this light the trade figures of the first nine months of 1949 appear to approximate the value of prewar imports and exports. The high advances in values of this year's trade over the prewar figures are deceptive. That commercial cargo loadings and unloadings (ocean, river, rail communications) are today, although coming up to impressive amounts, still lagging behind prewar averages bear out the above conclusion which is only based on values of imports and exports in terms of sterling after calculating the estimated decline in the postwar Hongkong dollar's purchasing power.

Import Excess

The import excesses for the first three quarters of 1949 and the two preceding years (first nine months) were as follows:—

	HK$ millions	%
1947	202.7	23.80
1948	325.7	20.45
1949	319.7	20.01

The import excess of this year appears low considering the fact that public and private godowns as well as any other available storage spaces in the Colony continue to be congested. This congestion has been a feature of local business since almost two years and has been aggravated as from the earlier months of this year by the arrival of 'refugee' cargo from North and Central China (recently from South China as well) as a result of the spreading civil war operations and the feeling of insecurity among a large number of Chinese and foreign merchants and manufacturers.

Local requirements by the consumers and by the expanding manufacturing industries (for raw and semi-finished materials) may have been around $10 to 15 million per average month. It was previously estimated that the Colony's own needs would usually account for 15% of total imports, the remainder being unloaded here for immediate or eventual re-export. However, while this estimate has been probably quite

(*Continued On Page 556*)

HONGKONG'S TRADE FOR JANUARY TO SEPTEMBER

Total Values of Imports & Exports of Merchandise by Countries

Countries	IMPORTS FROM 1st 9 months 1948	IMPORTS FROM 1st 9 months 1949	EXPORTS TO 1st 9 months 1948	EXPORTS TO 1st 9 months 1949
	$	$	$	$
United Kingdom	182,008,368	268,442,139	54,637,078	107,297,381
Australia	40,624,929	44,758,741	12,350,087	26,628,595
Canada	22,791,368	39,149,474	5,841,797	12,698,367
Ceylon	956,409	1,499,851	4,306,842	4,655,317
East Africa	1,279,505	1,640,338	6,982,670	13,777,342
India	29,717,029	38,811,619	18,060,275	31,561,015
Malaya	64,223,258	64,149,807	140,878,782	181,156,962
New Zealand	308,983	977,440	18,026,503	2,081,751
North Borneo	7,550,765	9,146,455	4,878,892	6,495,760
South Africa	7,566,383	14,865,641	4,613,213	12,774,471
West Africa	525	41,606	3,082,252	5,259,853
West Indies	7,761	71,995	6,761,013	3,811,802
Br. Empire Other	20,186,365	23,103,120	8,844,140	8,261,487
Belgium	29,689,525	11,820,928	6,781,887	5,624,372
Burma	29,546,746	17,736,120	8,611,235	14,466,107
China, North	71,314,966	140,086,727	63,649,588	140,805,949
„ Middle	29,137,576	36,827,214	44,558,074	76,653,422
„ South	176,421,576	263,892,401	76,621,935	101,267,495
Cuba	71,470	44,498	1,167,463	852,109
Central America	877,234	1,123,131	2,490,570	2,950,321
Denmark	1,833,627	2,401,343	644,405	2,737,506
Egypt	5,796,301	2,399,346	3,218,242	3,029,066
France	13,910,910	26,124,128	7,224,475	9,192,008
Fr. Indochina	19,381,633	16,467,046	15,441,173	16,254,891
Germany	2,969,303	4,356,255	3,546,884	13,894,065
Holland	13,252,403	28,647,265	4,256,350	7,583,456
Italy	28,979,534	13,379,685	3,197,729	6,663,815
Japan	56,623,852	70,069,652	33,425,408	53,472,841
Korea, South	20,415,248	27,724,922	30,007,226	54,933,554
„ North	—	40,670,833	—	38,701,043
Macao	60,118,396	60,607,592	89,843,873	174,301,060
Norway	16,561,109	14,212,740	2,046,545	4,085,316
Neth. East Indies	24,785,866	21,915,509	53,490,281	45,669,624
Philippines	6,453,533	12,672,147	102,876,559	73,881,220
Portugal	564,524	1,042,083	22,580	90,657
Siam	82,123,122	78,831,310	106,901,925	99,731,241
South America	1,539,637	3,704,996	4,040,989	3,641,430
Sweden	24,101,143	16,796,237	2,351,603	2,954,751
Switzerland	25,357,740	38,815,749	7,605,854	913,313
Spain	1,209,823	429,139	224,486	190,487
U. S. A.	285,495,945	402,956,614	111,874,703	153,271,745
U. S. S. R.	431,680	1,843,317	11,958,614	1,898,628
Austria	864,878	3,126,247	159,292	17,660
Eire	—	—	—	117,881
Czechoslovakia	4,160,056	5,956,342	—	1,815
El Hasa	—	—	2,313,133	1,674,748
Finland	2,849,735	2,136,095	205,434	57,626
Greece	29,408	42,924	138,351	236,010
Hungary	33,735	523,423	—	—
Iran	5,312,432	545,926	310,306	357,201
Iraq	—	—	5,088,491	1,770,523
Oman	1,800	89,468	1,352,223	2,808,294
Poland	672,896	2,076,436	—	—
Port. East Africa	213,705	65,654	1,370,574	2,437,123
Pakistan	—	17,545,536	—	49,328,041
Syria	—	—	748,506	691,641
Turkey	—	1,924,316	1,760,683	1,292,146
Others	11,379,037	19,020,751	5,181,606	10,588,856
TOTAL	1,431,703,752	1,917,310,271	1,105,972,799	1,597,551,160
Total Br. Empire	377,221,648	506,658,226	289,016,386	416,460,103
Total Foreign	1,054,482,104	1,410,652,045	816,956,413	1,181,091,057

Hongkong's Trade for the first Nine Months

Total Values of Imports & Exports by Chapters

Articles	IMPORTS 1st 9 months 1948	IMPORTS 1st 9 months 1949	EXPORTS 1st 9 months 1948	EXPORTS 1st 9 months 1949
	$	$	$	$
Live animals, chiefly for food	26,174,875	32,368,791	23,042	8,560
Meat and preparations thereof	3,205,675	8,042,255	6,778,079	4,573,951
Dairy products, eggs and honey	22,831,688	46,878,502	21,707,122	28,406,429
Fishery products, for food	28,030,320	50,139,372	12,096,825	21,146,552
Cereals	95,565,803	56,194,703	8,102,288	3,181,097
Manufactured products of cereals, chiefly for human food	27,423,297	47,762,824	12,233,816	35,232,367
Fruits and nuts, except oil-nuts	21,459,199	32,113,820	18,727,340	21,849,772
Vegetables, roots & tubers, chiefly used for human food & their preparations, n.e.s.	36,023,033	51,279,097	49,139,145	57,342,403
Sugar and sugar confectionery	36,998,012	32,970,839	13,983,135	18,866,308
Coffee, tea, cocoa & preparations thereof; spices	10,270,824	16,683,469	9,544,352	14,150,588
Beverages and vinegars	10,208,330	16,581,928	5,760,698	10,055,478
Feeding stuffs for animals, n.e.s.	732,504	18,641,281	404,099	23,854,801
Tobacco	33,354,683	41,029,791	14,214,991	22,293,411
Oil-seeds, nuts and kernels	22,700,022	27,163,979	18,854,723	28,484,915
Animal & vegetable oils, fats, greases & waxes & their manufactures, n.e.s.	75,680,701	86,962,146	92,713,257	115,330,065
Chemical elements & compounds; pharmaceutical products	69,176,390	93,275,860	39,392,181	64,185,757
Dyeing, tanning & colouring substances (not including crude materials)	56,710,793	44,663,056	28,212,536	37,206,070
Essential oils, perfumery, cosmetics, soaps and related products	9,157,554	17,950,415	10,224,951	10,035,523
Fertilizers	14,496,189	12,494,182	13,266,726	12,134,934
Rubber and manufactures thereof, n.e.s.	24,259,644	29,452,026	22,739,891	29,839,369
Wood, cork and manufactures thereof	27,644,577	35,495,136	5,552,218	8,835,271
Pulp, paper & cardboard & manufactures thereof	80,122,248	73,366,354	46,302,095	69,063,526
Hides & skins & leather	10,111,763	19,002,529	10,885,270	15,189,835
Manufactures of leather, not including articles of clothing	285,641	741,036	3,086,551	3,910,032

Hongkong's Trade in September

Total Values of Imports & Exports By Chapters

Articles	IMPORTS September 1948	IMPORTS September 1949	EXPORTS September 1948	EXPORTS September 1949
	$	$	$	$
Live animals, chiefly for food	3,710,486	3,445,972	—	—
Meat and preparations thereof	219,661	510,476	651,433	345,295
Dairy products, eggs and honey	2,365,431	4,987,673	1,998,419	3,111,617
Fishery products, for food	2,433,008	9,921,985	1,462,865	3,467,979
Cereals	7,272,684	1,837,943	17,478	846,212
Manufactured products of cereals, chiefly for human food	453,144	10,056,609	1,304,230	7,480,948
Fruits and nuts, except oil-nuts	1,824,233	4,435,729	1,890,507	4,304,899
Vegetables, roots & tubers, chiefly used for human food & their preparations, n.e.s.	5,226,825	5,904,365	6,284,901	10,292,802
Sugar and sugar confectionery	3,072,897	7,725,128	699,962	3,803,628
Coffee, tea, cocoa & preparations thereof; spices	478,104	2,303,716	968,429	1,920,516
Beverages and vinegars	561,000	2,522,656	788,533	1,112,253
Feeding stuffs for animals, n.e.s.	52,562	4,836,652	124,160	6,101,695
Tobacco	2,013,476	7,802,268	1,582,494	3,973,857
Oil-seeds, nuts & kernels	926,629	4,547,025	1,237,569	3,036,479
Animal & vegetable oils, fats, greases & waxes & their manufactures, n.e.s.	6,798,480	7,160,877	8,659,950	12,720,655
Chemical elements & compounds; pharmaceutical products	5,047,509	13,941,372	6,058,226	9,873,631
Dyeing, tanning & colouring substances (not including crude materials)	2,510,905	3,859,959	3,989,810	4,825,208
Essential oils, perfumery, cosmetics, soaps and related products	787,852	2,774,990	1,087,717	1,340,554
Fertilizers	7,565,181	3,421,768	3,305,037	2,804,937
Rubber and manufactures thereof, n.e.s.	1,356,543	5,357,511	3,078,887	6,194,061
Wood, cork and manufactures thereof	2,785,602	4,303,562	737,415	1,112,563
Pulp, paper & cardboard & manufactures thereof	5,500,237	8,729,930	7,276,444	8,928,480
Hides & skins & leather	713,936	2,465,609	798,967	1,176,624
Manufactures of leather, not including articles of clothing	19,293	71,316	385,639	390,066

Furs, not made up	674,014	2,280,215	1,642,169	4,598,857
Textile materials, raw or simply prepared	29,935,896	65,955,358	31,857,550	63,258,618
Yarns and threads	91,678,073	65,768,842	37,453,864	96,125,409
Textile fabrics and small wares	116,463,418	152,183,371	141,306,263	149,876,329
Special and technical textile articles	4,150,520	6,765,982	2,605,309	4,888,177
Clothing & underwear of textile materials; hats of all materials	14,144,372	16,304,527	37,349,242	63,579,371
Clothing of leather & fur	130,568	56,370	93,864	5,510
Footwear: boots, shoes & slippers	1,627,650	1,152,706	13,005,221	15,257,677
Made-up articles of textile materials other than clothing	11,766,910	30,118,842	45,817,517	51,622,915
Products for heating, lighting & power, lubricants & related products, n.e.s.	90,865,909	99,870,460	54,836,293	50,069,525
Non-metallic minerals, crude or simply prepared, n.e.s.	11,753,869	14,706,431	3,433,129	4,868,487
Pottery and other clay products	6,625,388	9,148,373	5,810,495	6,890,805
Glass and glassware	7,338,928	10,343,766	5,969,009	8,315,860
Manufactures of non-metallic minerals, n.e.s.	2,896,511	3,039,435	866,246	1,207,245
Precious metals & precious stones, pearls & articles made of these materials	3,313,004	30,461,042	2,165,196	4,427,547
Ores, slag, cinder	13,481,824	27,176,012	19,264,665	22,776,758
Iron and steel	40,734,412	49,487,775	17,547,516	24,130,535
Non-ferrous base metals	27,789,903	42,482,930	22,171,026	41,650,633
Manufactures of base metals, n.e.s.	31,341,807	49,988,806	55,404,781	90,496,421
Machinery, apparatus and appliances other than electrical, n.e.s.	38,992,397	60,624,587	4,173,823	12,632,066
Electrical machinery apparatus and appliances	18,551,970	43,446,698	9,798,592	17,272,581
Vehicles and transport equipment, n.e.s.	24,791,649	39,194,069	18,105,392	16,850,087
Miscellaneous crude or simply prepared products, n.e.s.	31,688,219	102,545,949	52,695,230	108,435,572
Manufactured articles, n.e.s.	68,342,780	102,954,343	58,655,076	83,137,161
Gold and specie	201,031	138,963,407	20,001,194	102,831,047
TOTAL	1,431,904,783	2,056,273,678	1,125,973,993	1,700,382,207

Furs, not made up	70,000	74,077	95,171	8,000
Textile materials, raw or simply prepared	5,816,860	11,758,576	5,929,915	13,972,153
Yarns and threads	4,586,664	6,066,666	7,434,921	16,181,341
Textile fabrics and small wares	11,037,227	20,953,826	18,813,062	20,185,062
Special and technical textile articles	596,199	833,272	263,890	553,421
Clothing & underwear of textile materials; hats of all materials	999,383	2,636,423	4,762,465	5,598,124
Clothing of leather & fur	15,157	33,445	4,860	—
Footwear: boots, shoes & slippers	132,174	245,595	630,296	1,198,410
Made-up articles of textile materials other than clothing	2,593,526	6,206,701	13,943,990	7,690,429
Products for heating, lighting & power, lubricants & related products, n.e.s.	12,107,918	22,177,392	5,710,198	7,281,530
Non-metallic minerals, crude or simply prepared, n.e.s.	1,199,203	1,321,229	502,758	403,344
Pottery and other clay products	455,398	797,619	672,078	887,694
Glass and glassware	279,324	788,546	867,184	968,561
Manufactures of non-metallic minerals, n.e.s.	332,429	304,975	178,019	93,807
Precious metals & precious stones, pearls & articles made of these materials	541,438	7,278,169	343,638	959,141
Ores, slag, cinder	2,290,272	3,351,154	2,372,115	3,049,572
Iron and steel	2,148,615	5,105,133	3,628,374	3,935,423
Non-ferrous base metals	2,406,453	7,705,343	2,940,114	3,957,171
Manufactures of base metals, n.e.s.	2,883,623	5,024,520	7,276,361	8,849,750
Machinery, apparatus and appliances other than electrical, n.e.s.	3,248,894	4,806,580	503,564	1,625,648
Electrical machinery apparatus & appliances	1,117,700	5,879,407	1,467,842	2,131,053
Vehicles and transport equipment, n.e.s.	1,552,876	5,498,944	1,642,546	1,718,581
Miscellaneous crude or simply prepared products, n.e.s.	3,537,135	10,936,067	6,391,082	15,127,529
Manufactured articles, n.e.s.	6,505,775	14,318,213	7,527,314	9,306,920
Gold and specie	—	89,418,140	886,168	12,911,801
TOTAL	130,150,021	356,445,103	149,176,997	237,759,424

(*Continued From Page* 553)
correct in the prewar years and also in the years directly following the conclusion of the war in the Pacific, it is necessary to revise this figure in the current year on account of the unusually heavy import of refugee cargo from China as well as redirected cargo, originally consigned abroad for Chinese ports but eventually discharged in Hongkong.

It is true that raw material requirements by local factories are increasing as a result of the progress of industrial production in the Colony; on the other hand, the requirements of durable and non-durable consumer goods by the local community have been largely satisfied and the buyer's market has also come into its own in Hongkong with the result of higher inventories and overstocking on the part of importers and dealers who feel reluctant, particularly in a supposedly declined world market, to replenish stock except if there appears to be a compelling reason such as the recrudescence of new local demand. One may assume that imports in 1949 (first nine months) for local requirements valued approx. $100 to 140 million, or about 5 to 7% of total recorded imports. The import excess on account of entrepot business would therefore seem to amount to only $200 m. (i.e. total excess of $319.7 less, say, $120 m. for local requirements), and this amount should be approx. the value of commodities stored up at present in the Colony's warehouses (excluding however the value of such goods as held by stores, shops and dealers for local requirements). A considerable portion of stored commodities is not intended for re-export; it has been brought here by refugees from China who prefer to hedge in commodities rather than gold or US$.

The above estimate of $200 million worth of commodities stored in local godowns and private storage premises, as far as entrepot business is concerned, requires some correction on account of unrecorded Hongkong-China trade. There continue to move considerable quantities of both imported and locally manufactured goods from here to Canton and other parts of Kwangtung, the transport being usually, and not illicitly, done by hordes of individual and organised petty 'traders'. In the transport of goods across the Hongkong/Chinese border, by rail, ship and highway, the balance is always in favour of this Colony, that is to say, that the value of this type of exports to South China exceeds the value of imports from Kwangtung via these specified routes and by this sort of 'traders'. Much cargo moving in and out of Hongkong could be classified as unmanifested cargo but, generally, the 'trade' is conducted by thousands of Chinese (among whom women predominate with a large percentage also of members of the Chinese military forces) who provide the railway and the Canton river services with probably the major portion of their respective earnings. It is estimated that the Jan./Sept. balance of this type of unrecorded but not illicit Hongkong/Kwangtung trade is approx. $30 million in favour of the Colony; consequently, the recorded import surplus of the first nine months of this year of $319.7 m. should be reduced by the above figure of approx. $30 m.

It should be borne in mind when discussing the import surplus of Hongkong that conditions in this (primarily) port and entrepot are fundamentally different from those observed and studied in other territories. Hongkong is not a 'country' and therefore its balance of trade, whether active or passive, does not concern the local business community or the over-all economy of this Colony. The ultimate buyers of cargo ordered by, or shipped through Hongkong have to obtain the funds for payment of their obligations wherever they can. Countries with whom Hongkong has a considerable export excess are, for instance, Malaya, Siam, the Philippines, Indonesia, Korea (south), Macao (on behalf of Kwangtung), Pakistan, Germany. It is the business of buyers in these countries to remit foreign exchange or sterling to Hongkong for payment of the balance accruing in favour of Hongkong. Countries with whom Hongkong has an import excess, e.g. the USA, China, the UK, Switzerland, obtain payment from Hongkong traders, it is true, but the eventual buyers of foreign manufactured goods in Far Eastern countries or of China produce elsewhere abroad have to supply sooner or later the requisite amounts in foreign exchange or sterling.

The local community has only to pay (in sterling or foreign exchange) for commodities to an approx. value of $10 to 15 m. per average month, and this amount is amply earned from services rendered in connection with merchanting, transportation and storage, both in foreign exchange and in sterling. The balance of Hongkong's foreign payments is estimated to be very active (there are however no official figures available as, regrettably, the compilation of relevant financial statistics has been and continues to be neglected) both on foreign exchange and on sterling account. (The recent influx of British troops has further increased the community's sterling earnings).

COMMERCIAL MARKETS

Developing Trends

While the Chinese communist army under General Lin Piao was reported to have penetrated within a few miles of Kweilin, the capital of Kwangsi, KMT guerilla forces claim to have had some successes against the communists on the Hupeh-Honan-Anhwei border. It is quite possible that these guerillas are able to inflict losses and to hinder the new authorities in the task of taking over the civil administration, but whether they can inflict serious damage or prevent the new administration from functioning is another matter. During the world war the Chinese guerillas formed a definite handicap to Japanese control but at that time the whole country was united in fighting a common enemy and the people were unanimously prepared to assist in every way possible. Today the situation is different and it would seem that the major portion of the country is inclined to accept the new regime, either through conviction or through a desire to be allowed to settle down to normal trading conditions.

The whole world admires patriotism but commonsense would point out that without an army to back them the guerillas can achieve no lasting success. It is true that they can destroy equipment, communications, etc., but when that is done, hampering though it may be in some respects, such efforts alone cannot win a war. There is also the danger that less desirable and more adventurous rather than reasonable elements may utilise patriotism as outlined by resistance as a means of gaining a livelihood at other people's expense. Whatever may be the outcome, and the strength of the resistance is yet to be seen, the peasant, the trader and the shopkeeper are anxious to resume a more stabilised existence and for this reason these guerilla tactics may prove a boomerang to the Nationalists, returning upon them with a growing intensity of resentment and a correspondingly sympathetic audience for the communistic way of life.

So far as Hongkong is concerned the situation is quiet and while no definite agreement with the new Chinese administration has been arrived at, it is clear that the Colony is hopefully awaiting developments, confident that the new authorities in an effort to better the lot of the people must recognise smooth trading relations as the first step to an ordered prosperity. The tentative approaches that are being made to restore an equitable daily interchange of communications and trade are watched with great expectancy and it is to be sincerely hoped that nothing will hinder progress towards this end.

The visit of the Kowloon-Canton Railway manager to Canton during the week for the purpose of "talking things over" is the initial and fundamental step towards a normal resumption of trade between the Colony and that city. While it is too early to predict the results of these negotiations, it is felt that the outcome will indicate the extent to which the new authorities are

prepared to meet the exigencies of the moment. Mail to Canton is already being moved although it takes longer to get there; at Lo-wu in the New Territories it is removed from the train and taken to Shumchun where it is placed on the train for Canton, the actual time required from Hongkong to destination being four days.

Future Outlook on Markets

The effect of the communist assumption of government in Kwangtung has temporarily affected the local market. Traders however are confident that when the situation has been clarified business will immediately be resumed and that the market will be favourable especially as far as trade with North China is concerned. This optimism has been created by the knowledge that trade with the North would then flow by rail and road from Canton instead of as at present by irregular and uncertain shipments and by blockade runners. Produce from Canton to Hongkong, especially foodstuffs, is obliged to find its way by devious routes to avoid the three Nationalist destroyers allegedly the mouth of the Pearl River and preventing the entry or departure of vessels of every type unless, as it has been alleged, a "tax" has been paid on the passengers and goods carried.

There is a considerable amount of speculation as to what form of trade with the outside world will be allowed in Canton. It is assumed that the new Government will take effective control and that the first thing will be to cut out so-called non-essential items, while items such as machinery, electrical equipment, drugs, etc., will come under the heading of essential and will therefore be allowed.

Devaluation and After

Following the devaluation of the British pound sterling in September, the market has shown a rising tendency in many commodities. Much of this has been due to causes beyond the control of local dealers such as the increased prices which have been announced by various European suppliers noticeably in metals and paper which were among the earliest to go up, and although stocks in Hongkong are large as a result of the lack of demand from Central and South China and the sending of all available supplies to Hongkong before the occupation by communists of any large town, there must come a time when trade will again flow freely and the godowns which are now overstocked will empty with the inevitable need for replenishment of stocks. On account of the abnormal situation local merchants have held off ordering more than an absolute minimum in metals or paper, but in the case of both these commodities earlier losses were sustained under the price cuts announced by manufacturers abroad during August/September. To meet these, paper merchants in Hongkong raised their prices on the average by about 10%, which it is claimed does not entirely cover the difference. Now, following the example set by metals and paper, British woollen piece goods manufacturers have raised the prices by about 15% while prints have gone up by 2d. per yard; Italian materials have been increased in price by around 15% to 20% and no doubt other countries will do likewise; consequently the exporter in Hongkong will be faced with the prospect of losses or of imposing higher prices on a reluctant market. In certain directions, however, it must be borne in mind the market is not too unwilling; North China for example is only too anxious to buy and under existing conditions good profits can be reaped which will no doubt help to level up the losses in other quarters. Possibly when Canton is reopened for trade the same may apply, though as the Cantonese trader is very wary and keen on a bargain it is not so certain that he will be quite as pliable as his northern compatriot, in fact it is quite possible that he will be the one to make any profit that may be going. Where the government is concerned, as a great deal of trade will be under communist management, it is another matter. Most governments are notoriously easy to deal with when they enter a market as purchasers. Could one take a better example than the British Government? No sooner has the Raw Cotton Commission announced that in place of purchasing US cotton they will be in the market for cotton from non-dollar areas then up goes the price, Sudan and West Indian cotton by 2d., Brazilian and East African cotton by ¼d. to ½d. To the plain man in the street it looks rather like a case of "dog chasing tail," but that must surely be a misunderstanding of the situation.

Far East International Exposition in Bangkok

The holding of a Far East International Exposition in Bangkok, from December 5, 1950 through March 31, 1951 has been given final approval by the Cabinet of the Thai Government. A company has been organized and registered capitalized at Baht 12 million, of which 10 million is being offered to the public in units of 1,000. The promoters anticipate that the necessary capital will be readily subscribed, as they secured the support of local banking institutions and business concerns, and have the approval of the Government of Thailand.

Some 25 nations have signified their interest in the Exposition. The promoters are aiming for 1,500 exhibitors to take advantage of this exposition to display their wares. The proposed exposition would provide a panorama of industrial, agricultural, educational, scientific, medical, cultural and artistic achievements of the Far East. It would bring to Bangkok outstanding displays of manufacturers from all over the world whose products are designed for export to Southeast Asia. An open-air amphitheater is planned on the island in the central lake of Lumbini Park coupled with a floating stage for presentation of plays and other spectacles.

To house the exhibits, the promoters plan to build some 15 halls and pavilions ranging in sizes from a large Transportation Hall to a smaller building for Mines and Fisheries. Most of the buildings will be of temporary nature and will be removed from the site at the close of the exposition.

Exhibits will be classified in 15 major groups, each housed in its own hall or outdoor display area. The displays will fall into the following categories:

Heavy Industries; Transportation; Travel; Building Materials; Household Furnishings; Textiles, Leather and Wearing Apparels; Communications and Electronics; Chemicals; Plastics and Glass; Drugs, Medical and Public Health; Commerce and Trade; Fine Arts; Agriculture and Forestry; Mines; Fishery.

All preliminary arrangements are expected to be completed within the next 60 days from now. The administration building to house the Far East International Exposition offices should be ready for occupancy at the beginning of 1950, with other construction continuing through 1950,—all to be ready for the grand opening on the King's birthday, December, 5, 1950.

S. Korean Rubber Goods

Production of truck tires in southern Korea totaled 9,931 units in 1948 and 7,579 in the first 5 months of 1949. Considerable progress is evident in the increasing rate of production, it having reached and surpassed the rate in prewar 1937. The average monthly production in 1937 was 1,000 units; in 1948 it was 828 units, and in the first 5 months of 1949 was 1,517 units.

The output of bicycle tires showed even more progress. The total in 1948 was 110,899 pairs and in the first 5 months of 1949 it was 47,488 pairs. The monthly average in 1937 was 5,000 pairs; in 1948 production had risen to 9,242 pairs; and in the first 5 months of 1949 to 9,497 pairs.

Production of rubber shoes totaled 22,688,492 pairs in 1948, but declined to 6,817,006 pairs in the first 5 months of 1949. The monthly average was 1,890,708 pairs in 1948, but decreased to 1,363,401 pairs in the first 5 months of 1949.

Rice rollers produced in 1948 amounted to 51,538 pairs and in the first 5 months of 1949 to 17,032 pairs. The monthly average was 4,000 pairs in 1937; it was 4,293 pairs in 1948; and 3,406 pairs in the first 5 months of 1949.

North China Fur Exports

In the first half of 1949, 86,000 fur skins and 2,000 fur garments were shipped from Peiping and Tientsin to foreign ports. Shipments on a large scale are still not possible, however. Kalgan, center of the Chinese fur trade, at its peak production had 300 fur-processing shops employing more than 30,000 workers, and dressing annually more than 10,000,000 fur skins and 26,000,000 catties of wool. Under Japanese rule, most of the privately owned shops were closed but began to revive after the liberation. Shops in

Kalgan now employ more than 2,200 workers in fur, leather, and felt processing or manufacturing. Prospects for further development of the fur trade are considered good.

Manchurian Textile Industry

There are 120,000 spindles and 1,600 power looms now working in northeastern China. A plan has been prepared which provides for the repair of an additional 110,000 spindles and 4,000 power looms, after which they are to be put into operation this year.

The machinery-manufacturing industry is the relatively weak link in the northeast industrial chain, and wanton destruction by troops made matters worse.

Since the establishment of the Northeast Mechanical Control Bureau many machine shops have started to rebuild, and the number of lathes has been increased.

Taiwan Industrial Progress

The Taiwan Fertilizer Manufacturing Corporation have obtained a loan for construction of a calcium-cyanamide plant with an annual production capacity of 36,000 metric tons. It is scheduled to be completed in 18 months.

A large steel plant is being installed at Kaohsiung, Taiwan, by the National Resources Commission. Equipment for the plant includes a 2,000-horsepower dynamo. Some equipment was purchased from the United States.

Taiwan Trade Reports

Declared exports of essential oils from Taiwan to the United States during the first 6 months of 1949 included the following types: Citronella oil, 102,028 pounds, valued at $101,649; camphor oil, 17,637 pounds, valued at $5,808; sassafras oil, 19,432 pounds, valued at $4,358; safrol, 5,000 kilograms, valued at $2,600.

Declared exports of crude drugs from Taiwan to the United States during the first 6 months of 1949 included the following items: Fish-liver oil, 9,900 kilograms, valued at $32,310; fish livers, 26,022 kilograms, value, $9,367; and tea waste, 245,035 pounds, value, $18,312.

The monthly production of rubber goods by five companies in Taiwan was reported in May 1949 as 25,000 pairs of rubber shoes, 500 truck tires, 300 truck tubes, and 3,000 sets of bicycle tires and tubes.

Gunny Bags

The importation of gunnies into Hongkong has for some weeks past amounted in all to approximately 14,000 bales of 400 bags per bale; a shipment is due with 2,000 bales. The future situation in gunnies is somewhat uncertain, especially as the Indian Government has now extended its restrictions on their export to the whole of the Far East and not to Hongkong only as was at first intimated. The restriction is to continue until the end of January, 1950. It is assumed that the restrictive measure has been instituted in order to raise the price but so long as South Africa remains out of the market the future of the local gunny trade is somewhat obscure and cannot be expected to show much improvement. A slight increase in the price of gunnies was noticeable during the past week due to information received from Tientsin that the rate in North China stood at around HK$6 per bag. The local spot price was $2.60 per bag with forward buying at $2.57.

Soaring Prices in Canton

Due to the lack of transportation between Hongkong and Canton, the forced return of the s.s. Kwai Hwa by the Nationalist destroyers and the consequent stoppage of the direct Hongkong and Canton river route, quite a number of commodities in Canton soared as compared with quotations for similar goods on the Hongkong spot market. Quotations for Australian flour rose to HK$100 per picul whereas in Hongkong the price was $42; US flour on the Canton market was offered at HK$115, and peanut oil fetched $280 whereas it registered $180 on the Hongkong market. With this high discrepancy in prices it is not surprising that although direct shipments are impossible indirect routes are being utilised whenever possible.

HONGKONG COMMODITY MARKETS.

Cotton Piece Goods

With the taking over of Canton by the Communists trade between Hongkong that port virtually came to a standstill and the cotton piece goods market dropped into a state of stagnation: grey sheetings Bellman fell still further to $46 per piece, Mammoth Bird which dropped to $47 rose, however, to $47.60 with some transactions and the same applied to Dragon Head which after falling to $49 rose to $49.50 per piece; in drills Flying Goose which had dropped to $49.80 sold at $50 per piece; white cloth Camellia sold at $47.50 after falling to $47.30 per piece, Bat & Tripod fetched $48 after a drop to $47.50 and Double Pagoda fetched $52.50 after falling to $52 per piece.

Woollen Knitting Yarns

As in the case of cotton piece goods, the reduced demands from South China have hit the woollen knitting yarn market badly: Australian 3-ply sold for $12.20, Dutch knitting yarn was offered at $11 per lb., Peacock 4-ply fell to $9 and other makes to $8.80 per lb.

Metals

The Govt. announcement that imports from Japan could be renewed under licence caused prices for *galvanized mild steel sheets, thin*, to weaken in anticipation of fresh supplies; holders of stocks were willing to sell, but buyers held back for lower rates: Japanese G30 3'x7' was offered at $13.70 per piece a drop against the earlier high price of $14, while 3'x6' was offered at $11.50 the previous price having been $12.50 per piece; Belgian 3'x7' stood at $14 against $15 which was previously asked, while forward delivery was quoted at $9.20 per piece. *Galvd. mild steel sheets, thick*, were steady: Japanese G24 3'x7' improved to $1.05 per lb., G26 fetched $1, G28 dropped to 95 cents, while G28 3'x8' fell to 93 cents and G28 stood at $1 per lb., new arrivals of USA 33"x66" G24 sold at 83 cents. The demand from North China for *mild steel plates* was active and prices improved, local restrictions on re-export of this item having been relaxed: 4'x8' 1/16" stood at the price of $55 per picul for en route cargo expected shortly from the USA and France; spot cargo remained firm, 1/32" being offered at $85 per picul, while 1/16" was sold at $64, 3/32" rose to $62 and ⅛" was quoted at $50 per picul for a large quantity.

The market was fairly active in *mild steet bars*: square bars were low in stock and consquently re-exports were suspended; for local demands 20/22 ft. ⅜" fetched $45 per picul and other specifications were offered at $42; angle bars were needed for local requirements and the price which had fallen rose somewhat, 1½" fetched $60 per picul and 1¾" improved to $56 per picul; flat bars were steady, ⅜" thick standing at $43 and ½" at $45 per picul; some arrivals of round bars which had been indented at £35 to £36 per ton as against the new quotation of £28.3/- per ton were placed on the market: the selling offer for ¼" & 3/16" was at $36 per picul, ⅜" was at $34, ½" $31, ⅝" & ¾" $30, ⅞" $32.50, 1" $34, while 1¼" due to shortage of stock held firm at $38, and 2" to 3" meeting with demands from Tientsin and Shanghai stood at $34 per picul. *Zinc sheets* were affected by the cessation of trade between Hongkong and Canton and few transactions took place: Polish 3'x8' G5 was offered at the reduced price of $113 per picul and G6 at $110 while forward bookings improved to £121 per ton for G5 and £118 per ton for G6; Japanese old stock 3'x7' showed no improvement, G5 was offered at $110 and G6 at $100 but without transactions. *Galvd. pipcs* were short of stock in the large size and 2½" improved to $4.60 per ft., 3" to $5.60, while 4" stood at $6.20 per ft., the British make was offered forward at $2.40 for 2" and $2.60 for 2½"; in the small size subtantial stocks were held and prices remained steady: ½" was offered at 60 cents per ft., ¾" at 72 cents, 1" at $1.50, 1¼" at $1.40, 1½" at $1.70 and 2" at $2.20. The market in *wire nails* was dull in view of the information that Japan is now trading direct with Manila, which will mean the loss of a lucrative business as previously Hongkong supplied almost all the requirements of the Philippines: furthermore Malaya is now dealing direct with Great Britain, which leaves Thailand and China as Hongkong's main markets: prices consequently fell, Czechoslovakian 1" to 4" (excluding 1⅜") fell to $45 per picul. Polissh and Italian makes were offered at $44 and Belgian at $46 per picul,

while new arrivals from Great Britain 1½" to 3" in 84 catties packing sold at $42 per picul; Italian G18 ½" dropped to $67 per picul and ⅝" to $65, G17 ¾" also fell to $65, while ½"-¾" sold at $65 per picul. *Galvd. wire* was in demand to fill Macao requirements and showed some improvement: G6 & G7 were offered at $56 per picul, G8 to G12 at $55, G13 & G15 at $56, G17 at $63, G14 to G16 at $54 and $57, G18 at $62, G20 to G22 at $67, G24 at $94 per picul; *galvd. wire ends* sold at $25 per picul. European rivets were out of stock, but the local make sold at $63 per drum for 1¼" and at $62 for 1⅜" & 1¾". The British Ministry of Supply has announced a further cut in the price of good soft *pig lead* to £105 per long ton, this has brought the price down to 20% above its rate before devaluation as against the 40% increase to which it had risen: the local price of pig lead 99% was $115 per picul, the Canadian product fetched $128 and Australian standard quality fetched $116; pig lead compound stood at $90 per picul, zinc lead compound was offered at $78 and printing lead at $88 per picul. New arrivals of USA *tinplate waste* were placed on the market: first quality in tonnage lots was offered at $84 per 200 lbs., a fall of $5, and ex-godown at $82; *electrolytic tinplate*, USA, was sold at $77 per 200 lbs. for en route cargo and offered at $78 for spot; *misprint tinplate*, white base, was offered at $55 per case and black base at $40 without transactions.

Glass

All demands from Central China for glass ceased with the Communist occupation of Canton and the market was obliged to rely upon local consumption in its transactions: Japanese 100 sq. ft. 16 oz. fell to $26 per case, French 100 sq. ft. 16/18 oz. stood at $25, Belgian 200 sq. ft. 18 oz. stood at $55 and the French make fell to $50 per case; the thick quality Belgian 200 sq. ft. 24 oz. was offered at the increased price of $90 per case, Czechoslovakian 300 sq. ft. 44 oz. was quoted at $600 for first quality, $510 for second quality and $390 per case for third quality, but these prices were regarded as too high and no sales were reported.

Paper

The price of *newsprint* for the Far East has again been raised; standing at £37.10/- it went to £39.10/- just after devaluation and has now been increased to an average of £49 per ton fob, partly as a result of the increase of around 20% in the cost of raw materials; the Norwegian quota to the Far East for 1950 has been fixed at approximately 500 tons. The lack of godown space in the Colony caused dealers to refrain so far as possible from placing orders abroad, there has consequently been a gradual fall in stocks until this process was checked by the cessation of buying orders from South and Central China; merchants, however, are convinced that as soon as the new authorities in Canton have organised themselves trade will be restored to normal, especially in view of the fact that restrictions upon the importation of paper into North China have been relaxed; meanwhile newsprint in rolls has improved to 33 cents per lb. *Cellulose*, British, 36"x39" fell to $80 per ream and 40"x56" dropped from $106 to $98 per ream. *Art printing paper*, Belgian, 85 lbs. sold at $95 per ream. *Aluminium foil*, British, thin quality 4½"x6¾" fell from $2.80 to $2.75 per lb. and the Canadian make from $2.85 to $2.80.

Cigarettes

No orders were received from Canton for cigarettes during the change over in authorities and a sharp drop in prices occurred: Craven "A" fell to $21 per carton, Garrick dropped to $32.20, while Lucky Strike and Cool dropped to $414 per case; other brands declined in the same manner.

Dyestuffs

In spite of the situation in and around Canton the dyestuff market improved, as buyers were laying up stocks to despatch into South and Central China as soon as the position was regularised: Direct Blue 300% USA sold at an improved price of $300 per picul an increase of $20 per picul, Ponsol Blue RSV (Dupont) 100 catty packing was sold at $9,500 an increase of $200 per picul and the 25 catty packing was sold to North China buyers in a small lot at $10,500 per picul an increase of $500; Indigo 20% paste (Nacco) fetched $160 per picul and 60% grains (Nacco) sold at $860 per picul, 50% paste (Nacco) in 5 catty packing fetched $700 a rise of $100 per picul while the 50 and 100 catty packings sold for $600 per picul; Indigo Vat 80% grains (ICI) in 1 catty packing fetched $1000 per picul as against the earlier price of $920, 60% grains (ICI) in 1 catty packing sold for $800, while 50% paste (ICI) in 5 catty packing sold for $650 per picul. Rhodamine powder, USA, sold at $1100 per picul and B extra conc. (Francocolor) at $3200 per picul, Congo Red N 100% (Francocolor) was sold at $650. Thionol Black BX 250 (ICI) sold at $200 per drum of 60 kilos., AR conc. (ICI) sold at $210 per 60 kilo. drum and $21 per tin of 6 kilos. Sulphur Black R conc. 693 (Nacco) fetched $1280 per picul.

Cement

The cement market was active with resales of Taiwan cargo at $6.40, $6.50 and later at $6.80 per bag, the price originally paid having been $6.20; forward bookings on new orders were at $115 per ton fob. Indochina Red Dragon brand sold at $6.60 per 1 cwt. bag with forward booking at $118 per ton. Japanese 100 lb. bags sold at $6.40; Danish white cement forward booking improved to $18 per 1 cwt. bag. Green Island cement sold at the usual price of $5.60 per 94 lb. bag and $6.50 per 112 lb. bag, "emeralcrete" rapid hardening cement fetched $7.50 per 112 bag and "snowcrete" British white cement stood at the usual price of $55 per drum of 375 lbs. nett, while "snowcem" cement paint sold at $58 steel per steel drum of 112 lbs. nett ex-godown.

Rice

With the arrival of substantial supplies of rice from centres in Kwangtung which apparently had not been affected by the turnover in Canton prices showed a general decline, though as it was not certain how far future deliveries would be hampered by the lack of transportation and it was anticipated that several of the rice growing districts would be unable to get their rice to Hongkong, the drop was not so great as to reach the former level this being particularly noticeable in the lower qualities for which the demand is greatest: Un-Long, New Territories, 1st quality dropped from $100 per picul to $95 as compared with $77 on October 11; Canton 1st quality Chai Mei fell from $98 to $92, the former price being $73; Peony brand red line See Mew fell from $100 to $82.50 as against $76.

Vegetable Oils & China Produce

From September 1 to 14 arrivals of vegetable oils in Hongkong came to 5658 drums of tungoil (wood oil) of which 4396 drums came from Canton 1090 drums from Shanghai 137 drums from Wuchow and 35 drums from Peiho, and 2374 drums of rapeseed oil of which 2000 were from Shanghai and 374 from Canton. Shipments to London of tungoil for September amounted to 1191 tons an increase of 860.3 tons compared with the August figures; whereas a decline was seen in the shipments from October 1 to 15; exports of tungoil from Hongkong to the USA from October 1 to 15 amounted to 2075 tons, of which 1145 tons went to New York and 930 tons to San Francisco; the price in New York recently was US 24½ cents per lb. for spot. The price of *tungoil* on the local market started at $170 per picul with export permit and with decreasing stocks rose to $170.50 and $175 per picul. *Teaseed oil* 5% acid first quality sold at $175 per picul and rose to $180. Sellers and buyers could not come to terms in regard to sales of *rapeseed oil* sellers quoting $112 per picul with export permit and buyers counter-offering at $108, which reflects the indecision in the market. *Groundnut oil* was active during the week and prices rose as a result of the expected occupation of Swatow by the Communist forces which it was anticipated would hamper the obtaining of new supplies from that district; sellers held back their stocks hoping for a further rise: Swatow Flying Horse brand in large tins sold at $190 per picul and later arrivals at $195, the market closing at $200 per picul, Red Star (new) sold at $181, Sui-Tung, South Kwangtung, produce fetched $168 per picul for first quality, the Tientsin product started at $121 but rose to $124 per picul by the close of the market, Stork brand from Thailand also improved and sold at $115 and Deer brand at $154 per picul, first quality Bombay groundnut oil in drums sold at $143 and closed at $145 per picul.

Hongkong Sand Monopoly

The working of the Sand Monopoly after its re-introduction early in 1947 was in full swing by March, 1948, although difficulties were experienced in meeting demands due to an unfounded rumour that the retail price of sand was to be raised. On April 1, 1948 only 3 cubic yards of sand were left in stock and long queues of lorries were at the depots each day waiting for sand to be delivered from junks. The junk fleet was increased and the hours of business extended at the depots, until by the middle of April the rush had subsided. That there was no justification for panic is shown by the fact that it was possible during April to issue 24,000 cubic yards of sand as compared with 19,000 yards in March and an average monthly issue during 1947/48 of 10,500 yards.

Once this initial check was overcome, collection and sale of sand proceeded normally until November, 1948, when, with the prospect of another change of contractor at the beginning of January, demands took a violent swing upwards and the Monopoly was faced in December with requests for 31,000 cubic yards. Although these were all met, it was impossible to accumulate any reserve to meet the heavy demands while the new contract was getting under way and supplies for the first half of January had to be allocated proportionately to demands from contractors. Receipts from the new sand contractor gradually increased until by the end of the month the crisis had been passed and by the end of February, notwithstanding a monthly issue of 37,500 cubic yards, the stock pile had again substantially increased.

The demands for sand in March, 1949 reached nearly 40,000 cubic yards, reflecting the Colony's immense building programme. In spite of this record issue the reserve stock pile at the end of the year stood at 13,000 yards which had been accumulated by dint of unremitting work by the Sand Monopoly Inspector and his staff, and the co-operation of the contractor. Issues since March indicate that the peak of the building activity has been passed, but it is still considered necessary to acquire new areas for sand bins on both sides of the harbour in order to accumulate sufficient stock to meet heavy demands should there be any delay in supplies reaching the depots.

The stream course and beach at Tai Lam Chung and the beaches at Gin Drinker's Bay and So Kun Wat provided the greater part of the sand issued though supplies were also drawn from various beaches on outlying islands. A beginning was made on the clearance of stream courses at Shatin.

The rate charged for sand sold during 1948/9 was $9.00 per cubic yard ex depots, and $10.00 per cubic yard for direct deliveries.

The total paid into revenue for sales of sand was $3,062,174 which, after deduction of salaries of staff and operational charge of the Monopoly, gave a net credit balance for the year of $788,915.

Although the turnover in 1948/49 was three times that of the previous year the rise in the contract cost of sand without a corresponding increase in the sale price reduced the working profit from 34.23% to 25.08%.

The market in *aniseed star* was steady and transactions took place in first quality Nanning, Kwangsi produce at $60 per picul. Prices of *cassia whole* rose heavily and the Shek-On product sold at $250, an increase of $20 while the Wui-On quality sold at $225; old cassia whole of Tunghing Kwangtung quality fetched $72 per picul; cassia bud sold at $85 per picul; cassia lignea of West River, Kwangtung, quality in 60 catty packing fetched $60 per picul, and in 84 catty packing was offered at $62 but without sales while bulk packing was offered at $58.

With the occupation of Canton supplies of China *rosin* were suspended from the East and West River districts in Kwangtung, and this suspension was promptly reflected in a rise in prices: West River product was sold at $56 per picul and then sellers held back awaiting a further improvement; East River quality was offered at the high price of $70 per picul. The export market for *gallnuts* was weak and stocks lacked replenishments from Canton: Liuchow, Kwangsi, quality was offered at $90 per picul; South Korean broken quality sold at $76.50 per picul.

Beans

Buyers for Singapore, Taiwan and Manila were in the market for beans and transactions were brisk: Dairen *soya beans* started at $40 and rose to $41.30, while Kiaochow soya beans sold at $42.80 per picul; Kalgan *green beans* were firm at $52 per picul; *red beans* sold at $30.50 and rose to $34 per picul; *Jack beans* first quality sold at $30.50 per picul ex-godown and at $29.50 ex Kowloon godown. Taiwan requirements in *beancakes* having been satisfied the market weakened transactions being effected at $31.50 per picul.

BURMESE VEGETABLE OILS

The two principal vegetable oils produced and utilised in Burma continue to be, as before World War II, peanut oil and seasame oil. There is normally only small production of other oilseeds, such as rape, mustard, coconut, linseed, and castor seed. There has been no large scale cottonseed pressing since the war, largely because of unsettled conditions.

Production of peanuts during the 1948-49 season amounted to 144,000 long tons (1 long ton=2,240 pounds) as compared with 153,000 tons during the 1947-48 season and the pre-war (1936-41) average of 161,000 tons. Seasame-seed production in 1948-49 was 41,000 tons, as against 43,000 tons during the preceding crop year and the annual average of 50,000 tons in 1936-41.

Before the war, Burma imported peanut, seasame, and other oils from India and Malaya. Since the end of the war, the Government has been importing peanut oil from India and coconut oil from Malaya to supplement domestic vegetable-oil production. Imports of coconut oil during the first half of 1949 were valued at 5,030,568 rupees and peanut-oil imports during that period were valued at 8,530 rupees as compared with 69,179 rupees during the 1946-47 season. This excludes peanut-oil imports by the Civil Supplies Department which, between April 1, 1946, and September 30, 1948, totalled 53,667,900 rupees. The value of other oilseeds and oils imported during the 1947-48 and 1946-47 seasons are either not available or are considered to be negligible.